



# **Candriam article 8 Index** Strategies Transparency code





#### 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 part of our tenth statement of commitment and covers the period 2022 onwards. 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:

- Article 9 sustainable strategies.
- Strategies which invest in sustainable & responsible companies in emerging markets.
- European strategies, which invest in innovative & responsible companies in Europe.
- Other Equities, Bonds & Multi-Assets strategies classified as Article 8.
- Index strategies, which incorporate ESG criteria into their investment process, in accordance with a dedicated index management strategy.
- ETF strategies, which integrate ESG criteria into their investment processes.

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: SRI Publications | Candriam.

#### **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.

December 2023





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**Dominant/preferred SRI** 



Labels

#### 1. List of Funds Covered by the Code

**Asset Class** 

(Please choose a maximum of 2 strategies)		standards and norms	
□ Best in class Investment Section □ Engagement & Voting ☑ ESG Integration ☑ Exclusion □ Impact investing □ Norms-based Screening □ Sustainability Themed	Passively managed  □ Passive investing – core benchmark: specify the index tracking: - MSCI EMU - MSCI Europe - MSCI World - MSCI USA - iBoxx Euro Corporates - JP Morgan EMU IG - JP Morgan EMU 10 Y+ - JP MORGAN EMU 1-3 Years □ Passive investing – ESG/SRI benchmark: specify the index tracking  Actively managed □ Shares in a euro area country □ Shares in an EU country □ International Shares □ Bonds and other debt securities denominated in euro □ International bonds and other debt securities □ Monetary assets □ Short-term assets □ Structured funds	□ Controversial weapons     □ Alcohol     □ Tobacco     □ Arms     □ Nuclear power     □ Human rights     □ Labour rights     □ Gambling     □ Pornography     □ Animal testing     □ Conflict minerals     □ Biodiversity     □ Deforestation     ☑ CO2 intensive (including coal)     □ Genetic engineering     ☑ Global Compact     □ OECD Guidelines for MNCs     □ ILO Conventions     □ Other (please specify)	□ French SRI label □ French TEEC label □ French CIES label □ Luxflag Label □ FNG Label □ Austrian Ecolabel □ Other (please specify)

**Exclusions** 

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:

Code de Transparence | Candriam

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# 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 company that manage the applicant funds is the following:

Candriam

Serenity Bloc B

19-21 route d'Arlon

L-8009 STRASSEN

Luxemburg

Please consult our website for further information: <a href="www.candriam.com">www.candriam.com</a>. This code applies to the following thematic strategies managed by Candriam: Circular Economy and Climate Action.

Any question regarding sustainable and responsible investment (SRI) at Candriam can be e-mailed to the following address: Contact | Candriam.

Our assets under management dedicated to ESG-related products have reached €103 billion which represent 74% of our total AUM, as of 30<sup>th</sup> December 2022.

### 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 our SRI and 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.

As a sustainable asset manager, Candriam recognizes the importance of taking into account sustainability risks and opportunities in the portfolios it manages and to duly consider sustainability impacts.

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# Candriam a founding signatory since 2006 25 years track-record in Sustainable Investing



#### 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. Our ESG approach is based on a sophisticated set of ESG factors and performance indicators in six stakeholder domains, which is Investors, Employees, Environment, Suppliers, Customers, and Society, and are the core of Candriam's approach to Sustainable and Responsible 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 – ESG country framework established.** Our analysis of sovereign and related issuers, based on the four pillars of Human Capital, Natural Capital, Social Capital, and Economic Capital.

**2010 – ESG Indexed Funds** – In 2010, following the controversial armaments exclusions firm-wide, Candriam decided to apply its SRI screening to its indexed fund range

**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

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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. 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.

**2020 – Launch of Circular Economy strategy.** Launched in April 2020, the strategy invests in companies providing solutions/services in the advancement of a more sustainable economic model.

**2020** and beyond – Holistic Integration of Sustainability in Finance. In 2020 and beyond, we plan to continue to innovate and develop new sustainable investment solutions, as well as to increasingly integrate ESG risks and opportunities in all our investments, drawing on our more than two decades of experience in sustainable investing.

**2021 – Joining the Net Zero Asset Manager Initiative.** Candriam Announced on the 1st November 2021 advanced decarbonisation ambition and joins the Net Zero Asset Managers Initiative with the aim to secure a 50% reduction in greenhouse gas emissions across a significant share of its investment portfolio by 2030 and will pursue net zero emissions of its investment portfolio by 2050 or sooner.

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

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.
- Fund of Funds managed by Candriam where the underlying funds are not managed by Candriam.

For third-party discretionary portfolio mandates, company-wide exclusions are applied if parties so agree. For additional information, please find Company-Wide Exclusion Policy published on our website: <a href="Exclusion Policy | Candriam"><u>Exclusion Policy | Candriam</u></a>

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In addition to publishing our Transparency Codes, Candriam formalises its responsible investment process through publishing its Sustainability Risk Policy, followed by its Engagement and Proxy Voting Policies:

Sustainability Risk Management Policy | Candriam Engagement Policy | Candriam Proxy Voting Policy | Candriam

Integration of Sustainable 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 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.

In 2020, we further clarified the firm's sustainability governance:

- A Strategic Sustainability Committee: supported by Candriam's ESG and CSR experts, meet regularly to sets out the strategic orientations for both ESG investing (both product and commercial wise) and CSR.
- A company-wide Sustainability Risk Committee: reports to the GSC, and assesses corporate reputational & financial risks regarding sustainability including climate risks and defines a controversial Company and Country Watch list for all Candriam's activities.
- The Proxy Voting Committee: furnishes strategic guidance on Proxy Voting best practices and monitor Candriam's voting policy.
- The Candriam Institute for Sustainable Development: oversees Candriam's Philanthropy and community-impact program, through the support of initiatives in ESG Research & Education and in the Social Impact domain.
- **The ESG Steering**: coordinates the implementation of the strategic ESG Roadmap, relying on several agile investments, operational and IT workstreams.
- **The CSR Steering**: oversees and coordinates the implementation of the CSR Roadmap across the axes of Staff, Clients, Operational Value Chain, Governance and Community.

As an investment manager, we strive to integrate ESG across all processes, offering the best services and products in ESG Investing. As a company, we commit to upholding the highest sustainability standards in every dimension of our business and we believe that our new ESG Governance Framework will allow us to do so in a more efficient manner.

# 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:

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- **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.

#### **Types of risks**

	Risques	Opérationnel	Réputationnel	Stratégique	Financier
nai	Risques Physiques	✓	✓		
s Clir	Risques de Transition - valeur de l'actif			✓	
isque	Risques de Transition - Contraintes légales et de marché	✓		✓	✓
œ	Risques de Transition - financement		✓		✓

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 ESG 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 ESG universe. The investment portfolios are then compiled from this ESG 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:

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- 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 Climate Policy | Candriam.

Furthermore, as described in the previous section, Candriam has implemented a firm wide ESG governance structure to ensure proper oversight and information flow of ESG issues. Climate Risks are analysed by the Sustainability Risk Committee which assesses corporate reputational & financial risks. This committee reports directly into Candriam's Group Strategic Committee.

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

Across our front office teams, there are approximately 60 employees that are major stakeholders and directly involved in the company's sustainable investment activity.

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 specialize 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 industry-specific ESG materiality framework), the ESG analysts provide recommendations on issuers that determine the eligibility and, as a consequence, the ESG investment universe for the portfolio manager teams. The portfolio managers then apply their respective investment processes and select issuers from this ESG universe. For specific thematic strategies, the eligibility of issuers is determined in conjunction with the investment teams during dedicated committees.

Furthermore, an ESG Masterclass is organized on a regular basis to provide an extensive understanding of ESG related topics while educating our Portfolio Managers & Analysts to meet their sustainable investment objectives. This unique opportunity has been designed to provide not only training related to sustainability issues, but also information on new ESG developments and sector analysis developed by our dedicated ESG team.

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

General Initiatives	Environmental/ Climate Initiatives	Social Initiatives	Governance Initiatives
□ ECCR – Ecumenical Council for Corporate Responsibility □ EFAMA RI WG □ European Commission's High- Level Expert Group on  Sustainable Finance □ ICCR – Interfaith Center on  Corporate Responsibility □ National Asset Manager  Association (RI Group) □ PRI - Principles For  Responsible Investment □ SIFs - Sustainable  Investment Fora □ Other	□ CDP - Carbon Disclosure     Project (including Climate     Change, and Water and Forest     programmes)     □ Climate Bond Initiative     □ Green Bond Principles     □ IIGCC - Institutional Investors     Group on Climate Change     ☑ Montreal Carbon pledge     ☑ Paris Pledge for Action     □ Portfolio Decarbonization     Coalition     ☑ Other: TCFD     - Please refer to the section     below for further information		□ ICGN - International Corporate Governance Network ☑ Other - Please refer to the section below for further information

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- Please refer to the section below for further information			
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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:

CANDRIAM | Profil Signataire | PRI (unpri.org)

#### **Candriam's sustainable commitments**

We commit ourselves, as an investor or as a company, to behave in a responsible way. Here below are the statements we have signed or the initiatives we have joined accordingly:

Commitments and Statements signed	ESG	Joined in/ Signed in	Conviction Topics
PRI - Principles for Responsible Investment	ESG	2006	
UNGC Call to Action on anti-corruption	G	2014	
G20 Energy Efficiency Investor Statement	E	2015	*
Montreal Carbon Pledge	E	2015	*
Paris Pledge for Action	E	2015	(*)
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	*
Net Zero Asset Managers initiative (NZAMI)	E	2021	*
UK Stewardship Code 2020	ESG	2022 Application, approved in 2023.	

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#### **Collaborative Initiatives**

We join forces with other investors to secure greater leverage in calling on stakeholders to act responsibly. The table below shows collaborative initiatives active in 2019 but that Candriam had started to support in previous years, their impact and Candriam specific contributions:

Collaborative Initiatives/ Type	ESG	Joined/ Renewed	Candriam Role* and Initiative Trigger	Conviction Topics
Sustainable Stock Exchanges Collaborative Dialogue		2010	Passive Support Thematic	
Access to Medicine Collaborative Dialogue	S	2010	Mix of Support Thematic	$\Delta \overline{\Delta}$
2013 - 22 Bangladesh Investor Initiative Collaborative Dialogue	SG	2013	Mix of Support Thematic	<u>▼</u>
Fiduciary Duty In the 21st Century Statement Collaborative Statement		2017	Passive Support Thematic	
Climate Action 100+ Collaborative Dialogue	E	2017	Mix of Support Thematic	*
Plastic Solutions Investor Alliance Collaborative Dialogue	ES	2018	Mix of Support Thematic	
Investor expectations statement on Sustainable Palm Oil Collaborative Statement		2018	Passive Support Thematic	
Open Letter to index providers on controversial weapons exclusions Collaborative Statement		2018	Passive Support Thematic	
Investor statement to EU Policymakers on the future of corporate reporting Collaborative Statement		2018	Passive Support Thematic	
Making Finance Work for People and Planet Collaborative Statement		2019	Passive Support Thematic	
Implementation of labour rights in Amazon's operations and supply chain Collaborative Dialogue	S	2019	Active Support  Exceptional Event / Controversy	<b>520</b>
Investor Statement On Turkmen Cotton (SourcingNetwork) Collaborative Statement		2019	Thematic	
2019-2022 Initiative for Pesticide Use Reduction and Safer Chemicals Management - Grocery Retail Collaborative Dialogue	ES	2019	Mix of Support Thematic	ΔΙΔ
Investor statement on deforestation and forest fires in the Amazon  Collaborative Statement		2019	Thematic	

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Collaborative Initiatives/ Type	ESG	Joined/ Renewed	Candriam Role* and Initiative Trigger	Conviction Topics
CA100 related - Paris Aligned Accounting, Letters to Audit Committees Collaborative Dialogue	E	2019	Mix of Support Thematic	*
Climate lobbying, Australian extractive sector-wide Letter Collaborative Statement		2019	Thematic	
CHRB - Investor statement calling on companies to improve Human Rights performance 2020-22 Collaborative Statement	s	2020	Mix of Support Thematic	<u> </u>
Investors Policy Dialogue on Deforestation Collaborative Dialogue	E	2020	Active Support Thematic	
Washing Machine Plastic Microfibre Filters Initiative Collaborative Dialogue	E	2020	Mix of Support Thematic	
Collaborative engagement on Uyghurs slave labour in the supply chain Collaborative Dialogue	S	2020	Mix of Support  Exceptional Event / Controversy	<u> </u>
BBFAW Investor Collaboration on Farm Animal Welfare 2021-22 Collaborative Dialogue	ES	2021	Passive Support Thematic	\$200
Access to Nutrition Index 2021 - 2022 Collaborative Dialogue	s	2021	Mix of Support Thematic	<u> </u>
Cumbria Coking Coal Mine project, Letter to the UK Prime Minister Collaborative Statement		2021	Exceptional Event / Controversy	
Barclays / Energy Policy engagement, led by ShareAction Collaborative Dialogue	E	2021	Passive Support Thematic	*
CDP - Science Based Target Campaign 2021-22 Collaborative Dialogue	E	2021	Passive Support Thematic	*
Investor letter to Global banks on Climate Change & Biodiversity (Shareaction-led) Collaborative Dialogue	Е	2021	Mix of Support Thematic	<b>*</b>
Corporate Accountability for Digital Rights 2021-22 Collaborative Dialogue	S	2021 Renewal, supported since 2018	Mix of Support Thematic	<u>₽</u>

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Collaborative Initiatives/ Type	ESG	Joined/ Renewed	Candriam Role* and Initiative Trigger	Conviction Topics
FAIRR Where's the Beef Statement Collaborative Statement	E	2021	Passive Support Thematic	
IIGCC investor position statement - voting on transition planning Collaborative Statement		2021	Thematic	
Net Zero Proxy Advice - IIGCC Investors Letter to Proxy Advisors Collaborative Statement	E	2021	Passive Support Thematic	*
Healthy Market Initiative - ShareAction led (incl. 2022 Unilever resolution on Healthy products) Collaborative Dialogue	SG	2021	Active Support Thematic	<u>Δ</u> <u>Ι</u> Δ
Investor Letter - Linking Access to Vaccine with Pharmaceuticals' Executives' remuneration Collaborative Dialogue	SG	2021	Mix of Support Thematic	Δ <u>Ι</u> Δ
NEW Workforce Disclosure Initiative 2022 Collaborative Dialogue	SG	2022 Renewal, supported since 2017	Mix of Support Thematic	<u> </u>
NEW 2022 - IIGCC Banks Engagement Collaborative Dialogue	E	2022	Mix of Support Thematic	*
NEW 2022 Nomination slates in Italy with Assogestioni Collaborative Dialogue	G	2022	Active Support Exceptional Event / Controversy	
NEW 2022 Investor Statement In Support of EU Digital Rights Regulations Collaborative Statement	S	2022	Passive Support Thematic	
NEW SoC Transparency 1.5D - Resolution Collaborative Dialogue	E	2022	Active Support Thematic	*
NEW 2022 Letter to Starbucks on Worker Representation Collaborative Dialogue	S	2022	Active Support Exceptional Event / Controversy	Q50
NEW CDP Climate 2022 Collaborative Dialogue	E	2022 Renewal, supported since 2004	Mix of Support Thematic	*
NEW CDP Water 2022 Collaborative Dialogue	E	2022 Renewal, supported since 2010	Mix of Support Thematic	

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Collaborative Initiatives/ Type	ESG	Joined/ Renewed	Candriam Role* and Initiative Trigger	Conviction Topics
NEW CDP Forest 2022 Collaborative Dialogue	E	2022 Renewal, supported since 2009 via Forest Footprint Disclosure Project	Mix of Support Thematic	
NEW Sustainable Protein 2022 Collaborative Dialogue	E	2022 Renewal, supported since 2017	Mix of Support Thematic	*
NEW Investor Initiative on Responsible Care - UNI Global led Collaborative Dialogue	S	2022	Mix of Support Thematic	VIV CON
NEW 2022 Australia Sovereign Engagement on Climate Collaborative Dialogue	Е	2022	Active Support Thematic	
NEW 2022 UNPRI Tax Reference Group Collaborative Dialogue	S	2022	Mix of Support Thematic	ΔΙΔ
NEW 2022 Global Investor Statement to Governments on the Climate Crisis Collaborative Statement	ES	2022 Renewal, supported since 2009	Passive Support Thematic	
NEW 30pct Club FR Collaborative Dialogue	SG	2022	Mix of Support Thematic	
NEW WBA Investor Engagement on Ethical Al Collaborative Dialogue	ESG	2022	Mix of Support Thematic	<u> </u>
NEW WBA Investor Statement on Ethical Al Collaborative Statement	ESG	2022	Mix of Support Thematic	<u> </u>
NEW FAIRR Biodiversity - Waste & Pollution Collaborative Dialogue	E	2022	Active Support Thematic	
NEW 2022 PRI Advance - Human Rights Collaborative Dialogue	S	2022	Mix of Support Thematic	<u> </u>
NEW COP15 Statement from the Financial Sector Signatories Collaborative Statement	E	2022	Passive Support Thematic	

<sup>\*</sup>Note: depending on the targets, our support may be active, passive, or lead investor.

Source: Candriam, and individual intitiative websites



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### 2.7. What is the total number of SRI assets under the company's management?

Our assets under management dedicated to ESG-related products have reached €103 billion as of 30<sup>th</sup> December 2022.

### 2.8. What is the percentage of total SRI assets under the company's management?

Our assets under management dedicated to ESG-related products represent 74% of our total AUM, as of 30<sup>th</sup> December 2022.

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

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# 3. General information about the SRI fund(s) that comes 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.

ESG integration is imperative as some of the sustainability challenges we face could test the resilience of financial and economic systems, whilst offering opportunities to foster innovation through our investments. This goes beyond environment and includes the social and governance dimension of corporate behaviour. Fully integrating ESG reflects our conviction that specific environmental, social and governance issues are being and/or will be priced in by financial markets participants through policy and/or societal change.

In this regard, financial metrics and accounting statements published by company are inherently backward looking and tell only part of the story. ESG analysis adds essential layers of information that capture the "intangible" aspects of a business not fully captured by traditional financial analysis. A growing share of companies' value is comprised of intangible risks and opportunities like brand, reputation, human capital and innovation. Sustainability affects those aspects directly and, as a consequence, makes it a relevant consideration within every investment strategy.

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

he 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 integrate ESG information in order to better assess the risks and opportunities that stem from the business activities and operations of companies. 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.

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

Rating Agencies	Certification	Scope	Types of Screening	Link
Equileap	-	International Companies	Gender equality criteria	https://equileap.org/
Bloomberg	Gender-Equality Index	International Companies	International standardized reporting and disclosure method for workplace gender data.	www.bloomberg.com/ GEI
MSCI ESG Research	-	International Companies	ESG Criteria – Controversial Activities – Norms-based Criteria	https://www.msci.com/ esg-integration
ISS-Ethix	-	Emerging Markets Companies International Companies	Norms-based Criteria  Screening criteria used to exclude the weapon industry	https://www.issgovern ance.com/
S&P Trucost	-	International Companies	Environmental Data  Greenhouse gas emissions, energy mix, percentage of exposure to fossil fuels	https://www.trucost.co m/
Sustainalytics	-	International Companies	ESG Criteria – Controversial Activities – Norms-based Criteria	https://www.sustainaly tics.com/
Wood Mackenzie	-	International Companies	Energy and mining sectors screening used to exclude unconventional extractions and thermal coal	https://www.woodmac .com/
ISS-Oekom	-	International Companies	Sustainable Development Goals measurements	https://www.issgovern ance.com/esg/
MapleCroft	-	Sovereign Issuers	Country risk metrics and analysis	https://www.maplecrof t.com/
RepRisk	-	Sovereign Issuers	ESG Country risk metrics and analysis	https://www.reprisk.co m/
EIU	-	Sovereign Issuers	Country risk metrics and analysis  Country energy data	https://www.eiu.com/n
PRS Group	-	Sovereign Issuers	Quantitative data, political risk and country risk ratings	https://www.prsgroup. com/
Beyond Ratings	<del>-</del>	Sovereign Issuers	ESG performance of economies - Sovereign Credit risk – Climate Objectives Alignment	https://www.beyond- ratings.com/
Carbon4 Finance	-	International Companies	Environmental Data based on energy transition & adaptation to climate change	http://www.carbon4fin ance.com/

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. (<a href="https://freedomhouse.org/">https://freedomhouse.org/</a>)
- **Fraser Institute**: measure of human freedom, understood as the absence of coercive constraint (<a href="https://www.fraserinstitute.org/">https://www.fraserinstitute.org/</a>)
- Transparency International (CPI): measure of public sector corruption. (<a href="https://www.transparency.org/">https://www.transparency.org/</a>)
- Environmental Performance Index (EPI): ranks countries which are best addressing the environmental challenges that every nation faces.

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- Paris Equity Check: assesses how fair are countries' climate pledges under the Paris Agreement.
- Ease of Doing Business Index: ranks countries on their ease of doing business.

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

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

Candriam's products aim to have a long-term positive impacts on key sustainability objectives relating to environmental, social and governance challenges. To evaluate this, Candriam conducts an impact assessment for corporates, based on their "business activities", exposure and contribution to Key Sustainable Challenges (KSC) and the management of their stakeholders. For sovereign issues, we evaluate notably how environmentally efficient countries are in developing their Human, Social, and Economic Capitals.

In order to participate in sustainable objectives, Candriam's Article 8 products use an investment strategy that aims at reducing ESG risks as well as "Principle Adverse Impacts". To achieve this, the investment strategy employs a disciplined and comprehensive ESG framework. Candriam's proprietary ESG analytical framework for corporates and sovereigns sets clear requirements and minimum thresholds to identify the companies/countries that qualify as sustainable investments.

In accordance with Article 2(17) of the European Union's Sustainable Finance Disclosure Regulation (SFDR). Candriam defines a "sustainable investment" as:

- An economic activity that contributes to an environmental and/or social objective.
- Such investments "do not significantly harm" any other environmental and/or social objective while complying with minimum safeguards, and
- Following the good governance practices

Good governance assessment of investee companies forms an integral part of Candriam's article 8 financial products that promote environmental or social characteristics. In addition, whenever article 8 and/or article 9 products invest in an article 6 product, the good governance principle will also apply to all constituents of that specific Article 6 product.

#### • Contribution to an environmental and/or social characteristic

#### Basic principles of ESG analysis for developed markets corporate issuers

We believe that all companies we invest in must display strong ESG practices. We exclude all companies that do not respect our company-wide exclusion policy and companies that have breached the principles of the United Nations Global Compact. This exclusion filter is coupled with an ESG assessment of companies by their ability to create value by integrating sustainability into their business activities and the interest of stakeholders within their operating and financial managerial processes.

Then, all portfolio managers monitor and take into account the sustainability information that they receive from the ESG team and integrate them into their investment processes and decisions in order to better assess the risks and opportunities for each issuer. This ESG integration approach will impact the fundamental and/or credit analysis of issuers, valuation and/or ultimately impact the final portfolio construction.

The ESG Universe is constructed using proprietary ESG framework comprising the following pillars:

- Controversial Activities: exclusion of companies involved in selected activities that do not embody sustainability.
- Norms-Based Analysis: companies that do not uphold the principles of the UN Global Compact are excluded.

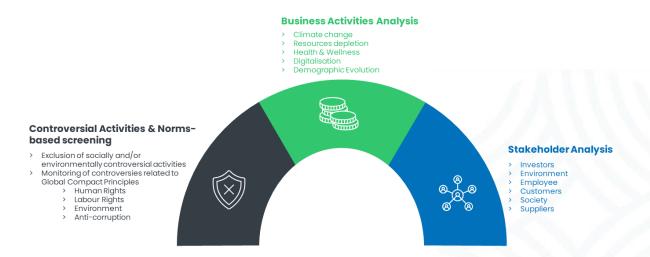
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- Business Activities Analysis: companies are exposed to major long-term ESG trends that
  can strongly influence the environment in which they operate and that may shape their future
  market challenges and long-term growth. We have identified five key sustainability trends:
  Climate Change, Resource Depletion, Health & Wellness, Demographic Evolution and
  Digitalisation.
- Stakeholders Analysis: We evaluate the extent to which each company incorporates the interests of six stakeholders in its long-term strategy: Investors, Employees, Suppliers, Customers, Society and Environment.
- **Engagement and Vote:** Engagement, through Dialogue, and Proxy Voting are central to our investment process in providing additional information on issuers and encouraging best practices.

For further information on our ESG approach, please refer to question 3.5.



### Basic principles of ESG analysis for countries, i.e. public bond issuers such as public organisations and others

For sovereign issuers, portfolio managers monitor and consider the overall sustainability score of a country. The latter recognize how countries perform best across our four Capitals of sustainable development criteria: Natural, Human, Social and Economic Capital. These four capital domains incorporate a wide range of material ESG factors which the ESG team evaluate using our internally defined Key Performance Indicators (KPIs). This generates a dynamic capital-based analytical tree, which covers the sustainable development challenges and opportunities faced by each nation, a valuable source of information for portfolio managers.



In addition, any country classified as Not Free by Freedom House is taking into account. Doing so, we aspire to set minimum standards of democracy, as well as avoiding countries that are involved in financing terrorism and money laundering.

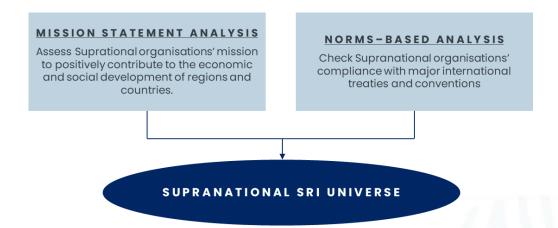
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#### Basic principles of ESG analysis for supranational organisations issuing bonds

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



The purpose of the **Mission Statement Analysis** is to exclusively select supranational organisations whose mission makes a positive contribution to the economic and social development of regions and countries. Most of today's supranational organisations meet this condition due to the very nature of their activities. In other words, the large majority successfully pass our screening process.

We also perform a **norms-based analysis** of supranational issuers. With respect to companies, the purpose of this analysis is to determine whether or not the supranational organisation observes the 10 principles of the United Nations Global Compact and, more specifically, the 4 main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti-Corruption (COR), as defined above.

This analysis aims to eliminate supranational organisations that significantly and repeatedly fail to observe any of the 10 basic principles.

#### **Do Not Significantly Harm (DNSH):**

The principle of "Do Not Significantly Harm" (DNSH) under the European Union's SFDR has key role ni the classification of sustainable activities and is linked to the consideration of the Principle Adverse Impacts (PAIs) and the alignment of the investments with the so-called "minimum safeguard". Candriam integrates the DNSH principle within its proprietary ESG research and analysis through the consideration of the PAIs which are central to our sustainable investment approach. You can find out more on the DNSH consideration on our SRI webpage:

SRI Publications | Candriam

#### **Principle Adverse Impacts (PAIs):**

Principle Adverse Impacts are defined as negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity. Candriam considers principle adverse impacts of its investment decisions on sustainability factors as part of its investment due diligence process. We consider PAI at different steps of our ESG research and analysis process, through a wide range of methods and three approach from ESG ratings to negative screening and stewardship activities.

At portfolio level, Candriam considers the principal adverse impacts on sustainability factors occurs through one or several of the following means:

- Monitoring: evaluation and integration of PAIs in our proprietary ESG framework.
- **Exclusions**: ESG negative screening of corporate and sovereign issuers aim at avoiding investments in harmful activities and practices.
- Engagement & Voting: to avoid and/or reduce adverse impacts on sustainability objectives, the financial product also considers adverse impacts in its interactions with companies, through dialogue and voting.

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Please find our PAI Consideration at Product Level and our Principal Adverse Sustainability Impacts statement on our webpage:

SFDR Publication | Candriam

#### **Principle Adverse Impacts (PAIs):**

In addition, exclusionary screens, based on norms-based assessment and controversial activities analysis, ensure that minimum safeguards referring to international norms and conventions are in place and that activities that are harmful to environmental or social sustainability are excluded.

#### **Good governance:**

good governance assessment of investee companies forms an integral part of Candriam's Article 9 financial products that have sustainable investment as their objective.

Our good governance assessment is based on our ESG Rating Methodology and comprises four pillars (as per the below). In this context, Candriam relies on its norms-based controversy analysis and its Stakeholders' Investor assessment. Investee companies are only eligible for investment if they pass all elements of this good governance screening/assessment. The four pillars are evaluated as follows:

- Sound management structure: assessed through Candriam's Norms-based Anticorruption/governance analysis and Candriam's Investor Stakeholder Analysis.
- Employee Relations: evaluated through Candriam's norms-based Labour Rights analysis.
- Remuneration of staff: analysed through the norms-based Anti-Corruption/Governance analysis.
- Tax Compliance: assessed through the Norms-based Anti-Corruption/Governance analysis.

In summary, investee companies that:

- Violates at least one of the four UN Global Compact Principles on Labour and/or the principle on Anti-corruption based on Candriam's norms-based Controversy Analysis are RED flagged, and, consequently not eligible for investment in Article 9 products.
- Have a score below 10 on the Investor pillar of the Candriam's Stakeholder analysis are not eligible for investment in Article 9 products.

Our norms-based analysis determines whether an issuer complies to the 10 Principles of the United Nations Global Compact ("UN GC") for each of the four themes: (1) Human Rights, (2) Labour Rights, (3) Environment, and (4) Anti-Corruption.

Candriam assesses any breach of international standards and principles through internal analysis, combined with, if available, external research. The "breach" analysis/assessment is performed by our ESG analysts and enables Candriam to offer a qualitative review of breaches/violations of those standards to fund managers and financial analysts.

#### Our analysis assesses the severity of the breach(es) through the following categories:

- Temporal proximity: when and how long?
- Magnitude: financial, environmental or social impact?
- Credibility: allegations or legal proceedings?
- Recurrence: one-off or repeated incidents?
- Reactivity: company's response?

Based on such information and the evaluation framework described above, the following colour code is given to each of the four themes of the UNGC:

GREEN

No evidence of repeated or significant violations of the global compact Principles

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



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RED

Evidence of repeated and significant violations of Global Compact Principles and the organizations has no appropriate response/behaviour.

We consider that a company that takes positive and responsible measures to ensure the avoidance of future potential breaches is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

The purpose of Candriam's Stakeholder analysis is to assess the ability of an issuer to interact with its different stakeholders and incorporate it stakeholders' interests within its long-term strategy to prevent risks and seize potential opportunities. Candriam has defined 6 key stakeholders:

- Investors
- Employees
- Customers
- Suppliers
- Society
- Environment

The interactions of the investee companies with each of these stakeholders is then assessed through pillars composed of Key Performance Indicators ("KPIs"), as the below example demonstrates:

The Investors analysis assesses how an issuer manages its relationship with investors, through 6 pillars and 15 KPIs:

- Strategic Direction: independence Board of Directors, composition Board of Directors, expertise Board of Directors, Track record of the CEO and succession planning.
- Avoiding conflict of interest: audit committee independence, audit committee expertise, auditor's independence.
- Compensation: remuneration structure, CEO pay ratio evolution, other compensation elements
- Share capital: one share one vote and anti-takeover mechanisms.
- Financial conduct and transparency: fraud and financial misconduct investigations, auditor's opinion, tax evasion.
- ESG governance: Board & Management oversight of climate related risks & opportunities.

The scoring of investee companies are absolute (they are not made sector relative) and we consider the threshold of a sound management to be minimum 10 (out of 100), any issuer with a score below that threshold is excluded.

#### Candriam's Engagement and Voting activities in support of Candriam "Good Governance" assessment:

- We believe engagement is pivotal to a good governance and thus we conduct an annual pre-AGM (Annual General Meeting of shareholders) campaign. These dialogues focus on the composition and responsibility of the board, as well on the compensation policy of the target companies.
- The voting season is also the occasion to foster better corporate governance by voting against the management in case of misalignments with our own good governance definition. Apart from the dialogues and vote, we may also raise our voice on governance matters via questions and/or resolutions co-filing at AGMs. Pre-announcing our voting intentions is also a way to escalate our concerns or commend companies for improvement after respectively unsuccessful or successful engagement. We have formalized these pre-announcements since 2023 (Predeclaration of Voting Intentions | Candriam).

In summary, to be considered a sustainable investment:

- A company must be part of our eligible corporate universe. Our eligible corporate universe
  consists of those companies that have an ESG rating from ESG 1 to ESG 5 (up to ESG 6 for
  emerging markets and high yield universe) and pass the corporate exclusionary screens.
- A country must be part of our eligible sovereign universe. Our eligible sovereign universe consists of those countries that are not excluded by our in-depth negative sovereign screening and that are in the top 75% of countries by sovereign ranking.

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

We apply a norms-based and controversial activities filter to exclude issuers which may represent high risk due to violation of international laws and non-sustainable

Furthermore, the strategy excludes corporate issuers deriving more than 10% thermal coal. This exclusion is part of our efforts to tackle climate change..

# 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.)?

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

- Companies issuing equities and/or bonds.
- Countries, i.e., public bond issuers such as public organisations.
- Supranational organisations issuing bonds.

We believe that all the companies we invest in must demonstrate sound E-S-G practices; we thus apply a norms-based analysis and SRI controversial activities filter and incorporate the results of the ESG Business Activities and Stakeholder analysis in the financial fundamental analysis.

#### The ESG Analysis is based on the following pillars:

- Controversial Activities
- Norms-Based Analysis
- Business Activities Analysis
- Stakeholders Analysis
- Engagement & Voting

In order to select the most sustainable and responsible companies in the emerging markets, Candriam has established a structured and rigorous ESG analysis shown in the diagram below:

#### **Controversial Activities**

Candriam performs a verification of controversial activities as part of its process for selecting socially responsible companies in emerging markets. In the second analysis, the companies are evaluated on the basis of their involvement in certain controversial activities such as adult content, alcohol, gambling, tobacco, weapons, nuclear power, thermal coal and activities exercised in oppressive regimes.

A company's exposure to controversial activities is evaluated according to several parameters covering the following variables:

- **Type of involvement**: either direct or indirect involvement is taken into account for each company evaluated (owners and operators, manufacturers and producers, retailers and suppliers, product suppliers or providers of support services, etc.).
- **Degree of involvement**: based on an approach in terms of level of involvement and applied to all types of controversial activities. Production capacities or income stemming from such activities are generally used as key indicators.
- Responsible policy: in addition to the type and degree of involvement, it is important to look at
  how the company addresses and perceives its potentially controversial activities. Consequently,
  the presence (or absence) of an appropriate, targeted responsible policy is critical to the
  purpose of this analysis. This type of policy acknowledges the company's involvement in a
  controversial activity, but also the existence of systems and practices designed to ensure
  that the activity is carried out responsibly.

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Any companies exposed to the weapons industry are permanently excluded from the universe, as well as companies exposed to the activities in the table below.

The exclusion thresholds, accordingly to the exclusion level applied to the fund, are shown in the table below:

	Niveau 1 Company-Wide Exclusions
Armes controversées	<ul> <li>Toute implication dans: mines terrestres anti-personnel, bombes à fragmentation, uranium appauvri, armes chimiques et armes biologiques</li> <li>Phosphore blanc: seuil de 5% des revenus</li> </ul>
Charbon thermique Tabac	<ul> <li>Seuil de 5% des revenus</li> <li>Entreprise développant de nouveau projets</li> <li>Seuil de 5% des revenus</li> </ul>

For more information, please refer to these specific activities in Candriam's SRI Controversial Activities policy, which can be viewed on our website:

Exclusion Policy | Candriam

#### **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).

PILLARS	UNGC PRINCIPLES  Businesses should
HUMAN RIGHTS	Support and respect the protection if internationally proclaimed Human Rights     Make sure that they are not complicit in human rights abuses
LABOUR STANDARDS	Uphold the freedom of association and the effective recognition of the right to collective bargaining     Eliminate all forms of forced and compulsory labour     Abolish the child labour     Eliminate discrimination in respect of employment and occupation
ENVIRONMENT	<ul> <li>Support a precautionary approach to environmental challenges</li> <li>Undertake initiatives to promote greater environmental responsibility</li> <li>Encourage the development and diffusion of environmentally friendly technologies</li> </ul>
ANTI- CORRUPTION	® Work against corruption in all its forms, including extortion and bribery

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 SRI 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?
- 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.

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.

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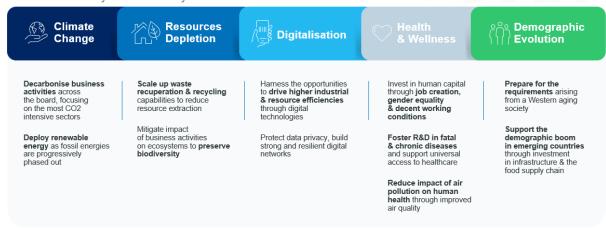
Based on this information and according to the evaluation framework described above, the colour code is determined as follows for each of the four main categories.

GREEN	No evidence of repeated or significant violations of the global compact Principles
ORANGE	<ul> <li>Evidence of repeated violations of the global Compact Principles but these do not appear to be significant, or</li> <li>Evidence of significant violations of the Global Compact Principles but these do not appear to be repetitive, or</li> <li>Evidence of repeated and significant violations of the global Compact Principles, but the company has taken appropriate corrective measures/actions</li> </ul>
RED	Evidence of repeated and significant violations of Global Compact Principles and the organizations has no appropriate response/behaviour.

In order to successfully pass the norms-based analysis filter, issuers must not have been attributed a "red" in any of the four main categories of the United Nations Global Compact. Companies are subject to an ongoing control and continuous updates.

#### **Business Activities Analysis**

Companies are exposed to major long-term ESG trends that can strongly influence the environment in which they operate and that may shape their future market challenges and long-term growth. We have identified five key sustainability trends:



We group companies based on the industry or sector in which each company operates, its geographic location, business model. We determine the degree to which each industry group is exposed to the five major development challenges, and score them from 0 to +100.

We assess a company exposure, through its revenue generation, assets, CAPEX etc., to five key sustainable challenges: Climate Change, Resource Depletion, Health & Wellness, Demographic Evolution and Digitalisation.

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For example, within the Mining sector, steel receives a more negative score on "Resources Depletion" than do metals of the platinum group; while within the Food sector, companies producing healthy products receive a more positive score than junk food.

Based on the conclusions of the sector Business Activities Analysis, all the company's exposures to the major sustainable development challenges specific to its sector are evaluated and scored. Please find below example of questions that can be asked for Climate Change across different sectors:







#### AUTOMOTIVE

- 12% of European CO2 emissions
  - Which powertrain technology offers the optimum CO2 footprint
  - Which manufacturers are best positioned towards new regulations on car emissions?
  - How are manufacturers balancing CO2 from mining extraction and CO2 saved from battery technology (Scope 1+2+3)

#### INFORMATION TECHNOLOGIES

- Leading investor in renewables but also fast rising emitter
  - How are different IT business models impacting climate change and responding to it?
  - Which new regulation or technology shift bears the potential to alter sector climate exposure?

#### ENERGY

- Growing pressures to set clear CO2 emissions targets
  - Which energy mix is most compatible with energy transition targets set at national level?
  - How is innovation effecting the relative cost competitiveness of various power generation technologies?

For each company, the score is the weighted average of the five key sustainable challenges, ranging from 0 to +100. A lower score reflects the company's lower exposure to these major challenges.

#### **Stakeholder Analysis**

Relationships with stakeholders give rise to opportunities as well as risks, and are therefore determinants of long-term value. We evaluate the extent to which each company incorporates the interests of stakeholders in its long-term strategy. We have identified six categories of stakeholders:



We determine the relevance of each category based on qualitative and quantitative data. For instance, we may look at the degree of attention paid to shareholders; the frequency of certain events such as accidents and fines; the tangible or intangible financial impact of ESG issues, and the outlook and prospects for a company to improve or deteriorate in these measures. Based on the relevance, we determine weights for each category.



For example, in the energy sector, we place a strong weight on the Environment, in Financials for the banking sector; we place more emphasis on Investors. Within the broad categories, we also assign





weight by materiality. For Energy, within the category of 'relations with employees', we stress health and safety; for Financials, within the category of 'relations for investors, we emphasize corporate governance.

For Financials we place special emphasis is given to governance in the stakeholder management analysis. Governance is one of the most important issues for financial institutions. We assess this aspect by analysing the following:

- Board structure: Independence, expertise of directors, etc.
- Auditors' rotation (mitigates conflict of interest)
- Remuneration: is the remuneration aligned?
- Share capital (avoiding share dilution)

Furthermore, as part of our governance assessment, we incorporate the UNEP FI Principles. We verify if a bank is a signatory of the UNEP FI to assess its commitment towards the ESG issues. Although this is not a hard criterion for exclusion, we believe that banks that have committed to these principles are more prone to display stronger ESG practices.

A single category can be represented by different indicators, depending on their relevance to the sector in question. For example, the category "health and safety" of employees is primarily assessed by looking at safety conditions on oil platforms in the Energy sector, whereas, in the Software sector, it would be assessed by looking at workplace stress and ergonomics indicators.

For each theme addressed, the ESG analysis evaluates the strategies implemented by the company (relevance of the strategy developed, human and material resources allocated, pro-activity and follow-up) as well as the company's performances in each category relative to its competitors and the major trends in the sector.

The combination of this evaluation and the weightings for each category of stakeholder relations obtained from Stakeholder analysis give the overall Stakeholder score (weighted average of the six individual stakeholder relations scores) for each company. The company's score ranges from 0 to 100.

#### **Engagement & Voting**

Engagement & Voting is a key part of our long-term investment process, given its potential impact on investor returns. Candriam engages with the management of its investment candidates on a range of aspects. Stewardship takes the form of a direct and individual dialogue between ESG analysts and the representatives of the company and other stakeholders.

Candriam's voting policy favours resolutions that support sustainable development principles in accordance with its Sustainable and Responsible approach. As a pioneer in ESG, we also encourage sustainable development in the financial markets by sharing our expertise with customers, the media, and the broader financial community through conferences, working groups, and educational initiatives.

#### **Eligible Universe and ESG score**

Following the Business Activities and Stakeholder Analyses and respective scoring, we then combine both scores (out of 100) to form an ESG rating for each individual issuer. Both pillars take on a weighting, depending on their materiality for each sector & company and yield an ESG Rating from ESG 1 (Best) to ESG10 (Worst).

The eligible ESG universe consists of best positioned companies based on the scores resulting from the Business Activities and Stakeholder Analysis and which have also passed our Norms-based Analysis and our Controversial Activities Analysis.



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A more fundamental analysis, called "ESG Conviction", may supplement our ESG analysis which uses a more materiality-based approach. This analytical framework focuses on the most relevant ESG risks and opportunities to which issuers are exposed in order to select those best positioned in terms of sustainability. Issuers are scored against material KPIs to determine the final ESG score and eligibility. ESG Conviction analysis is applied as a complement to our current process to enrich certain fundamental and active ESG investment strategies.

Since the ESG Conviction framework uses a more in-depth building block to enrich our analysis, the resulting rating, still from ESG1(best) to ESG10 (worst) will be the final ESG rating.

#### Specific analysis criteria for special purpose vehicles

We apply a specific analytical framework for Special Purpose Vehicles (SPV) due to the nature of their structure and purpose.

For potential investment in SPVs, the issuer must be eligible. We start by looking at the mission of the entity by identifying what lies behind the SPV. We subsequently identify the location of the vehicles, more specifically if it's located in a tax heaven or not.

Since we often do not have a clear overview on what lies behind an SPV, we often have a negative opinion regarding these vehicles and thus having them in an ESG portfolio.

We then apply our proprietary ESG approach, which is supplemented by our norms-based and controversial activities checks.

#### Specific analysis criteria for corporate green bonds

We have created a specific framework for the analysis of Green Bonds. We believe that these instruments differ from traditional debt instruments and require a dedicated analytical framework to assess the sustainability of their projects and level of transparency. Our framework comprises analyses for both the issuers of green bonds as well as the instrument and project.

#### **ICMA/CBI Certification Verification**

The first step of the analysis consists of determining if the Green Bond has obtained certification. This may include certification from the Green Bond Principles of the International Capital Markets Association (ICMA) or Climate Bond Standard & Certification Scheme of the Climate Bond Initiative (CBI) certification.

We place a strong emphasis on certification as it testifies to the quality of the green bond project and the respect of high and widely recognized standards for green bonds.

Nevertheless, this is not the ultimate eligibility criteria for Green Bonds. In addition to ICMA/CBI certification, the issuer of the Green Bond must be determined eligible by our ESG proprietary model.

#### **Issuer ESG Analysis**

We apply our in-house proprietary ESG analysis to determine the eligibility of the issuer of the Green Bond. The

framework is based on our traditional ESG proprietary framework comprising the following steps: Controversial activities check, Norms-based analysis, Business Activities Analysis, Stakeholder Analysis.

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The ESG Universe consists of best-positioned companies ranging from ESG 1 to ESG 5, and which have successfully passed our Norms-Based analysis and our Armament and Controversial Activities reviews.

For information on the process, please refer above to our ESG framework.

#### **Green Project Analysis**

The Green Bond Principles have determined a list of categories which capture the most commonly used types of projects supported by or expected to be supported by the Green Bond market.

To this end, we subsequently identify which categories of the Green Bond Principles are targeted by the projects financed by the Green Bond.

#### These categories include the following:

- Renewable energy
- Energy efficiency (including efficient buildings) & eco-efficient products.
- Pollution prevention & control (incl. waste management, soil remediation, GHG control)
- Sustainable land use (including sustainable forestry and agriculture)
- Biodiversity (terrestrial & aquatic) conservation
- Clean transportation
- Clean water and/or drinking water.

Furthermore, we analyse how the objectives of the green bond and its project fit into our Business Activities framework. In this analysis, we seek to identify the exposure of the green bond project and ensure a positive alignment to key sustainable themes, most notably Climate Change and Resource Depletion.

It is essential that the business model and environmental strategy of the company are aligned with the use of proceeds of green bonds. For instance, companies with business models that are considered unsustainable, such oil & gas companies highly dependent on coal, will be negatively assessed. Green bonds from these issuers that do not demonstrate a sustainable strategy in-line with green use of proceeds will have a lower probability of being included in our ESG funds.

#### **Green Bond Principles & Best Practices Verification**

As part of the Green Bond Principles best practices, it is recommended that issuers **appoint an external review provider** to confirm the alignment of the bond and/or bond program with the four main components of the Principles. These external providers include independent consultants and/or institutions with expertise in environmental sustainability or issuances of Green Bonds.

In our model, we have made this best practice a **hard criterion for eligibility**. We verify if the issuer has undergone this recommendation.

We subsequently analyse the following aspects pertaining to the green bond:

- Nature of financed projects: new projects, refinancing of existing projects
- Proceeds Management: we assess the level of transparency regarding the management of
  proceeds to ensure that proceeds are managed in an appropriate manner. This includes the
  tracking of proceeds, operations and the eligible types of instruments to balance unallocated
  proceeds.
- Audit of Proceeds: We place a strong emphasis on the audit of the proceeds to verify the
  internal tracking and allocation. In addition, we pay close attention to any certification received.
  An issuer can have its Green Bond or associated framework or use of proceeds certified against
  a recognized external green standard or label.
- Reporting: We assess the level of transparency in terms of its reporting. We verify if and how
  issuers make publicly and readily available their reviews and audits of the Green Bond. We verify
  that annual reports include information regarding the green projects including their environmental
  or social impact.

As the final step of the green bond eligibility verification, we verify, via our Micro analysis, that the issuer has strong stakeholder management practices in the domains which are most relevant to the **green bond and project**. If an issuer has weak practices in these areas, we conduct additional analysis to determine the final eligibility of the green bond.

**Final Eligibility Decision** 

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In order to be eligible, the issuer and the green bond must successfully pass each step of the process described above.

#### Analysis criteria for countries, i.e. public bond issuers such as public organisations and others.

Our investible universe consists of those countries which perform best across our four categories of sustainable development criteria: *Human Capital, Natural Capital, Social Capital* and *Economic Capital*. Additionally, our sustainability framework emphasizes on the Natural Capital criteria by turning it into a multiplier for the other three capitals. Doing so, we create three environmentally efficient capitals in order to reflect the urgency of dealing with the environmental challenges ahead of us. The overall sustainability score of a country is the average of the three environmentally efficient capitals, calculated in such a way. As a result, it will be much harder for a country to compensate for environmental damage by creating another form of capital, as all capital scores will be evaluated through the environmental damage that was done in the creation of Human, Social, or Economic capitals. These four capital domains incorporate a wide range of material ESG factors which we evaluate using our internally defined Key Performance Indicators, or KPIs. This generates a dynamic capital-based analytical tree, which covers the sustainable development challenges and opportunities faced by each nation. This is coupled with an exclusion rule relating to high-risk regimes and minimum standards of democracy. Please find below an overview of the sovereign framework:



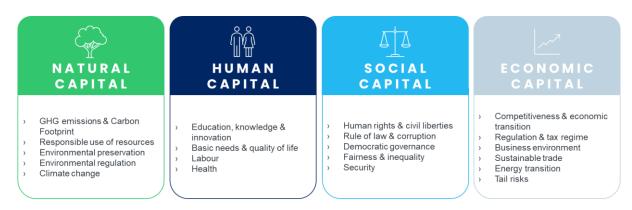
- Natural Capital: Our Key Performance Indicators are designed to assess how a country conserves and sustainably employs its natural resources. We evaluate how a country manages its interaction with global environmental challenges such as climate change, consumption of resources, stewardship of biodiversity, and waste handling. This aligns with, among others, SDG number 6 Clean Water; number 7 Affordable and Clean Energy; number 9 Industry, Innovation and Infrastructure; number 11 Sustainable Cities & Communities; number 13 Climate Action; number 14 Life Below Water; and number 15 Life on Land.
- Human Capital: Our Key Performance Indicators are chosen to assess economic and creative productivity, by evaluating education and skill levels, innovation, health, labour participation rates and employment ratios, among other sustainability themes. These address the same sustainable development goals as the following SDGs: number 1 No Poverty; number 2 No Hunger; number 3 Good Health and Wellbeing; number 4 Quality Education; number 5 Gender Equality; number 6 Clean Water; number 7 Affordable and Clean Energy; number 8 Decent Work and Economic Growth; number 9 Industry, Innovation and Infrastructure; number 10 Reduced Inequalities and number 11 Sustainable Cities & Communities.
- Social Capital: Indicators evaluate the civil society and state institutions of each nation, including transparency and democracy, government effectiveness, corruption, inequalities and populations' level of security. This important domain evaluates a country's performance with respects to the UN SDGs number 1 No Poverty; number 5 Gender Equality; number 10 Reduced Inequalities; number 11 Sustainable Cities & Communities and number 16 Peace, Justice and Strong Institutions.
- **Economic Capital:** We complete our model with an assessment of a country's economic fundamentals, in order to measure each government's ability to finance and support sustainable policies over the long run. These indicators provide information to address the progress towards the UN Goals including number 2 No Hunger; number 6 Clean Water; number 7 Affordable and Clean Energy; number 8 Decent Work and Economic Growth; number 9 Industry,

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Innovation and Infrastructure; number 11 - Sustainable Cities & Communities; number 12 - Responsible Consumption and number 13 - Climate Action.



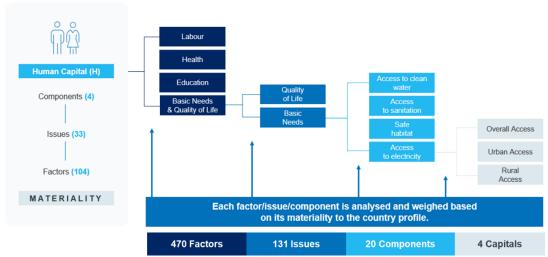
In addition, UN SDG number 17 – Partnership for the goals, is reflected throughout the framework through accounting for a country's participation in a wide number of international agreements & conventions and is taken into account when discretionary decisions are made. Please find below a graphic illustrating how the SDGs are embedded in our framework:



We recognise that a country is much more complex than a company and therefore any approach requires a broad view on a variety of factors that influence the development of a country. These factors are interconnected, but looking at any few of them in isolation can still give a biased picture of the overall state of a country. Therefore, our framework considers more than 400 individual factors that influence countries, and evaluates the relevance of each factor for each country at every level of development and point in time in the last 20 years. It identifies key performance indicators for each issue under consideration, and constructs scores for each of the capitals, giving more weight to the areas that matter for each country in the following way:

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Example above is for Illustration purposes only.

The framework is organised by starting with 470 individual data series for each country, called Factors, which are grouped into Issues, and those into Capital Components as illustrated above. These were carefully selected and are sourced from a variety of private, public, and NGO sources. These Factors capture both short-, medium-, and long-term issues, challenges and/or opportunities and are updated at varying frequencies, depending on the nature of the information. Similar Factors are used to measure the performance of a country on an Issue. For example, Access to Electricity can be measured by evaluating three interconnected Factors - access for the overall population, for just the urban population, or just the rural population. We perform a materiality assessment of individual Factors and select a Key Performance Indicator (KPI) amongst them. The materiality of the KPI for an issue determines the importance the model assigns to an issue, along with discretionary input to highlight more forward-looking measures. Similar materiality assessment is performed at every level in the framework, ensuring that a country score properly reflects what is important for the future development of that particular country.

Every country has the same Factors, Issues and Components that comprise its score, but the importance that our materiality assessment process assigns at every level of analysis is specific for each country and each point in time.

The resulting Capital pillar scores are turned into environmentally efficient Capital scores, as described above, and then countries are ranked according to the arithmetic average of the three environmentally efficient Capitals. Constructing the Capital Pillar scores is done according to materiality for each country and for each period, which eliminates the need to have a different eligibility threshold for Developed (DM) versus Emerging (EM) economies. In the overall ranking, constructed in this way, the bottom 25% of countries are excluded from the eligible investment universe.

Finally, the countries that pass the model exclusion will be subjected to our **normative filter**, with a **hard exclusion** for countries that do not pass our Democracy and Freedom filter. This filter consists of three elements:

- Candriam's Highly Oppressive Regimes List severe human rights violators
- Financial Action Task Force Call for Action List state sponsors of terrorism
- Freedom House's Freedom in the World Index states that are considered Not Free

In addition, discretion is applied to countries that are violators of international agreements, but such violations are not yet reflected in the available data.

#### Analysis criteria for supranational organisations issuing bonds

In order to be eligible for the ESG universe, supranational organisations must have a mission that complies with the principles of sustainable development and not have committed any major systematic breaches of the principles of the United Nations Global Compact.

A "red" colour code in any of the four major categories of the Global Compact results in exclusion from the ESG universe.

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For further information, please refer to the Norms-based section above in this question.

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

Our ESG universe is updated on a monthly basis taking into account the latest data from external providers.

Each sector and country are 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 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 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, rebellion, 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 alert explains how the ESG 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 one-month 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.

Sustainability Management Risk Policy | Candriam



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#### 4. Investment Process

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

Candriam's ESG 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 which includes ESG considerations to select issuers within the eligible ESG universe. Any investment outside the ESG universe is prohibited.

The selection of ESG issuers is confirmed by the ESG team on a monthly basis, and on a one-off basis in exceptional circumstances.

When there is a change in the ESG universe and an issuer is excluded, the approach consists in excluding this issuer from the SRI portfolios within a period of one month. Depending on market conditions, rare exceptions may be granted by the CIO, RM & the Global Head of ESG Investments & Research in order to accommodate, for example, a potential liquidity issue.

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

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

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

Portfolios are constructed using the eligible ESG Universe resulting from the application of our ESG proprietary frameworks which include climate change considerations. Investments teams may not invest in issuers outside of the eligible universe.

For information on how Climate Change is embedded in our ESG frameworks, please refer to question 3.4.

# 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 that are present in the portfolio are subject to an ESG assessment. However, due to specific events and market timing not all issuers may be subject to full ESG analysis to be eligible in the ESG universe.

Specific events (e.g. index additions, primary market issuances, etc.) may have an impact on the investment universe in between sector reviews. In order to address changes in this universe, the analyst applies a 'high-level' SRI screening methodology in anticipation of the next sector review. We refer to this screening as the SRI Express, it is applied in the same spirit of our proprietary ESG analysis with the only difference being that the result is a qualitative judgment for the inclusion or exclusion and is not a quantitative score. Each issuer will be assessed from a norms-based and controversial activities perspective. Additionally, the screening will exclude issuers that are exposed to the most negative business models in Candriam's Business Activities Analysis approach, and that are considered laggards in their practices towards stakeholders. Companies analysed through this methodology will be scored during the next sector review, which aims to reassess materiality weights and/or raw data coming from data providers, among others.

Express eligible issuer holdings must not exceed 10% of total portfolio weight.

Please find below an overview of the screening:

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

Our ESG evaluation or investment process has not changed in the last 12 months.

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

Yes, the funds covered by this Code seek to invest in entities positively contributing to society. Although the strategies do not apply an "impact" approach, they strive to exceed benchmark averages on the verifiable impact indicators.

For example, in the Stakeholder analysis of "Society" in the Micro model assesses the impacts of organisations in the communities in which they operate and how they interact with local and global institutions including NGOs and governments. The analysis comprises two main pillars - Community Relations and Public Authority Relations - which take into consideration several themes including: socioeconomic relationships, site safety, access to products/services, lobbying and corruption. Together, these two pillars assess the overall impact of a company's operations on its local community and society at large.

In our framework, companies which demonstrate the pursuit of strong social goals benefit from a higher ESG score. Furthermore, in sectors in which societal interactions are key, we place a stronger emphasis on this aspect by overweighting these factors in the final ESG score.

### 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 interestrate futures based on government bonds belonging to the SRI universe, to adjust the portfolio's

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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.

Single underlying derivatives must be compliant with the company-wide exclusion policy.

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

The funds covered by this Code do not invest in mutual funds.



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#### 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?

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 strategies, classified as Article 8 according to the SFDR, comply with the company-wide exclusion policy.

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:

- List of authorised investments;
- Potential ratios (liquidity, dispersion) defined;
- IMain regulatory constraints applicable to the fund;
- "ist 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 Group Strategic Committee with an objective and independent assessment of a particular domain (function, process, system, ...).

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#### 6. Impact measures and ESG reporting

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

For developed markets corporate issuers, we measure the ESG quality of the fund is assessed through internally developed ESG scores which are measured against the fund's benchmark. We track the ESG quality using an overall ESG score as well as E, S and G scores, as illustrated below:

ESG Score - Companies (0-100)

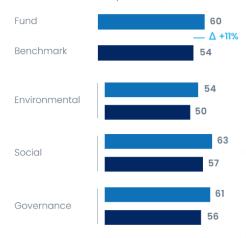


Image provided for illustrative purposes only.

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

The following ESG indicators are available for our Thematic strategies (except for strategies launched in 2021):

**Carbon Footprint**: Carbon Footprint Metrics of an investment portfolio refers to measurement of greenhouse gas (GHG) emissions by summing the proportional GHG emissions of the underlying holdings, proportional to the share of ownership. For further information on the carbon footprint, please refer to the Appendix.

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

Publications regarding the product capabilities such as prospectus, factsheets, and details of the holdings are available on our corporate website, in dedicated product sheets, in the "Search for a Fund" section:

Candriam's funds are described on the corporate website via the fund search engine:

#### Funds | Candriam

The Stewardship report incorporating Engagement and Proxy Voting reviews can be viewed on Candriam's website:

#### Annual Engagement & Voting Report | Candriam

Candriam's Corporate Social Responsibility Report, can be viewed at the following link:

#### CSR Report | Candriam

For any request on research available to investors/savers or the breakdown of the securities in the portfolios, please use <u>Contact | Candriam</u>.

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### 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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#### 7. Appendix

#### **Additional information – Carbon Footprint**

**tCO2-eq:** Carbon dioxide (CO2) is the most common GHG emitted by human activities, in terms of the quantity released and the total impact on global warming. As a result the term "CO2" is sometimes used as a shorthand expression for all greenhouse gases. A portfolio's carbon footprint is measured in tons of carbon dioxide equivalent (tCO2-eq) which allows to bundle the various greenhouse gas emissions in a single number. For any quantity and type of greenhouse gas, CO2-eq signifies the amount of CO2 which would have the equivalent global warming impact. Scope 1, 2 and 3: The international GHG Protocol classifies a company's GHG emissions into three 'scopes':

- Scope 1 emissions are direct emissions from owned or controlled sources.
- Scope 2 emissions are indirect emissions from the generation of purchased energy.
- Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

All Carbon Footprint Metrics analysed in our reporting are based on both Scope 1 and Scope 2 data sourced from the specialist data-provider "Trucost". Good quality Scope 3 data currently does not exist because of the complexity to measure and control upstream and downstream value chain data. That also entails that so-called 'avoided emissions' are excluded from the Carbon Foot-printing analytics. Carbon Footprint Metrics: One can distinguish between four Carbon Footprint Metrics:

- (1) Total Carbon Emissions: measures the total GHG emissions of a portfolio in the most literal sense by summing all the GHG emissions of the underlying holdings, proportional to the share of ownership. The dependence of this measure to a portfolio's specific size makes this metric of limited usefulness for benchmarking and comparison purposes.
- (2) (Normalized) Carbon Emissions: measures the asset weighted carbon emissions of a portfolio normalized per million USD invested (expressed in tCO2-eq / million USD invested).
- (3) (Normalized) Carbon Intensity: measures the asset weighted carbon emissions of a portfolio normalized per million USD of revenue (expressed in tCO2-eq / million USD revenues). This metric provides an indication of the amount of GHG emitted by the holdings in a portfolio to generate 1 million USD of revenue.
- **(4) The Weighted Average Carbon Intensity (WACI):** is the sum product of the portfolio's holdings weights and Carbon Intensities, where holdings' Carbon Intensities are calculated as the company's total carbon emissions divided by the company's total revenues.

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Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV) of the funds. This information is available either in English or in local languages for each country where the fund's marketing is approved.

Specific information for Swiss investors: The appointed representative and paying agent in Switzerland is RBC Investors Services Bank S.A., Esch-sur-Alzette, Zürich branch, Bleicherweg 7, CH-8027 Zurich. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in Switzerland

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