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Implementation of the Definition of 'Sustainable Investment' under the Sustainable Finance Disclosure Regulation (SFDR)

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

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1. Candriam's approach to Sustainable Investing

Candriam stands for **C**onviction **AND R**esponsibility in **A**sset **M**anagement. At the heart of our actions resides the strong belief that sustainability should act as a means as well as an ends to what we undertake as an asset manager. For the past 25 years, we have therefore endeavoured to unlock the potential of ESG research to deliver investment strategies with solid return/risk profiles, whilst at the same time addressing some of the world's most acute sustainability challenges.

The cornerstone of this ambition is the principle of **double materiality**. It is our conviction that an investment's potential long-term value cannot be captured by traditional financial metrics alone. By evaluating environmental, social and governance (ESG) criteria, investors can identify additional factors which affect a company's long-term prospects and competitiveness, in terms of both **sustainability-related risks and opportunities**. Moreover, in-depth ESG analysis allows for comprehensive evaluation of the **effects – positive or negative – of an investment on the environment and society**, and the sustainable development of our world in general.

To capture both the potential sustainability risks and opportunities that an investment is exposed to, as well as its positive or negative contributions to sustainability matters, Candriam conducts **in-depth analysis into the environmental, social and governance dimensions of each issuer** and thus **assesses sustainability performance at the level of each individual investment opportunity**. In the case of corporate issuers, Candriam examines these elements both with regards to *what* a company does (Business Activity Analysis) and *how* it operates (Stakeholder Analysis). For sovereign issuers, the sustainability analysis considers each country's forms of sovereign capital, and evaluates whether this capital is managed in a sustainable fashion.

The ESG analytical framework for corporate issuers integrates our conviction that **the relevance (in other words the "analytical materiality") of different stakeholders and key sustainability challenges varies** for different companies **depending on the specificities of their sector**. As a result, we have built custom sector models that reflect these specificities and the resulting analytical materiality of stakeholders and key sustainability challenges. For sovereign issuers, the fact that **different ESG themes, factors and indicators can have varying analytical materiality for different countries' current and future sustainability**, is also integrated into our framework. This analytical materiality-based approach allows us to integrate sector- and country-specific circumstances into our analysis, whilst permitting the construction of eligible ESG universes using an **absolute selection approach**.

2. Regulatory context

Under article 2(17) of the European Union's Sustainable Finance Disclosure Regulation (EU Regulation 2019/2088 - SFDR), a 'Sustainable Investment' is defined as an investment:

- **(1) in an economic activity that contributes to an environmental objective,** as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy;
- **(2) or an investment in an economic activity that contributes to a social objective**, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities;
- **(3) provided that such investments 'Do No Significant Harm'** (DNSH) to any of those objectives;[1]
- and **(4) that the investee company follows good governance practices**, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Candriam uses its proprietary ESG analytical framework to conduct in-depth assessments of issuers' overall sustainability and of their alignment with the aforementioned criteria.[2]

[1] Delegated Regulation (EU) 2022/1288. The principle of 'Do No Significant Harm' is linked to the disclosures of principal adverse impacts of investment decisions on sustainability factors. For that reason, financial product disclosures pertaining to the 'Do No Significant Harm' principle should explain how the indicators for adverse impacts have been taken into account.

[2] Candriam's process for assessing issuers' alignment with the regulatory criteria for 'Sustainable Investments' is based on Candriam's current understanding of regulatory standards and is subject to review at any time.

3. Corporate ‘Sustainable Investments’

Candriam’s corporate ESG analytical framework enables us to:

- assess the overall sustainability of companies, and
- set clear requirements and minimum thresholds to identify those companies that align with the three regulatory criteria for ‘Sustainable Investments’ outlined in section 2 above.

This corporate ESG analytical framework is structured around the following components:

- **Proprietary ESG analysis:**

  Candriam’s proprietary ESG analysis is based on the unique combination of Business Activity Analysis and Stakeholder Analysis, allowing for a comprehensive, analytical materiality-based and forward-looking assessment of companies’ sustainability. The framework fully integrates the principle of double materiality, which is a cornerstone of European sustainable finance regulation.

  This analysis is applied through two distinct but interconnected processes:

  - **Overall ESG assessment:** Firstly, our analysis allows for an evaluation of the **overall sustainability** of issuers, which results in an **overall ESG Rating** for each issuer.
  - **Specific E/S contribution assessment:** Secondly, Candriam uses specific elements of its ESG analytical framework in a dedicated process for assessing **contributions to environmental and/or social objectives**, which results in an **Environmental Contribution Score** and/or **Social Contribution Score** for each issuer.

- **In-depth negative screening:**

  Candriam’s in-depth negative screening allows for the identification and exclusion of companies that do not present **Minimum Safeguards** with regards to international norms and engage in activities that are harmful to environmental and/or social sustainability **(DNSH).**

  This negative screening is applied through two analyses:

  - **Norms-based Analysis**
  - **Controversial Activities Analysis**

By applying the elements of this corporate ESG analytical framework, Candriam evaluates the overall sustainability of issuers and assesses each issuer’s alignment with the regulatory requirements for ‘Sustainable Investment’ (environmental and/or social contribution, DNSH and good governance), as summarised in the table that follows.

<table>
<tr><th colspan="2"><u>Assessment area</u></th><th><u>Assessment tool</u></th><th><u>Required results / thresholds to quality as ‘Sustainable Investment’</u></th></tr>
<tr><td colspan="2">Candriam overall corporate sustainability assessment</td><td>• Overall ESG assessment and resulting ESG Rating</td><td>✓ Developed country issuers: ESG Rating 1 – 5
✓ Emerging market and high yield issuers: ESG Rating 1 – 6</td></tr>
<tr><td rowspan="3">Candriam assessment of companies’ alignment with regulatory principles (SFDR)</td><td>Contribution to an environmental and/or social objective</td><td>• Specific E/S contribution assessment (derived from overall ESG assessment framework) and resulting Environmental Contribution Score and/or Social Contribution Score</td><td>✓ Companies in (sub)sectors eligible for environmental contribution: Environmental Contribution Score equal or above 50
✓ Companies in (sub)sectors eligible for social contribution: Social Contribution Score equal or above 50
✓ Companies in (sub)sectors eligible for environmental or social contribution: Environmental and/or Social Contribution Score equal or above 50</td></tr>
<tr><td>DNSH principle</td><td>• PAI consideration through overall ESG assessment, negative screening, and stewardship (engagement and voting)
• Norms-based Analysis
• Controversial Activities Analysis</td><td>✓ Overall ESG assessment must conclude that company does no significant harm, including on the principle adverse impacts (PAIs)
✓ Companies cannot breach the principles of Candriam’s Norms-based Analysis
✓ Companies cannot carry out activities targeted by our sustainable exclusion policy</td></tr>
<tr><td>Good governance practices</td><td>• Stakeholder Analysis (extracted from the Overall ESG assessment)
• Norms-based Analysis</td><td>✓ Stakeholder Analysis must show company meets good governance standards (minimum Investor Score of 10)
✓ Companies cannot breach the principles of Candriam’s Norms-based Analysis (including labour rights and anti-corruption)</td></tr>
</table>

The sections that follow describe in detail how the aforementioned components of Candriam's corporate ESG analytical framework are used to assess issuers' overall sustainability and their alignment with the SFDR criteria for 'Sustainable Investment'.

For the avoidance of doubt, 'Sustainable Investment' is generally defined by Candriam at issuer level. For corporate investments, in either equity or debt, this means that Candriam assesses alignment with 'Sustainable Investment' criteria at company level. For sovereign investments, assessment takes place at the country level. In some specific cases, such as bonds with specific use-of-proceed, 'sustainable investment' may be defined at issue/instrument level.

a) Overall ESG assessment (and resulting ESG Rating)

To identify and assess the sustainability-related risks and opportunities that issuers face, Candriam has developed a detailed, materiality-based approach for assessing corporate sustainability. This overall ESG analysis results in an ESG Rating for each issuer that reflects the company's sustainability performance across several dimensions. This assessment combines an evaluation of how a company's activities contribute to Key Sustainability Challenges (Business Activities Analysis) and an assessment of how it treats stakeholders and manages ESG-related risks (Stakeholder Analysis).

These two analytical dimensions are described in further detail below.

i. Business Activities Analysis

Companies are exposed, through their business activities, to structural, long-term Key Sustainability Challenges that can strongly influence the environment in which they operate and may create long-term risks or growth opportunities. Likewise, companies, through their activities, contribute positively or negatively in addressing these long-term Key Sustainability Challenges. Based on more than 25 years of ESG expertise, Candriam has identified five Key Sustainability Challenges that are likely to reshape the functioning of our economies: Climate Change, Resources Depletion, Digitalisation, Health & Wellness and Demographic Evolution.

In order to conduct this analysis, we first conduct a materiality assessment at sector level that allows to determine the importance and by consequence the weight of each Key Sustainability Challenge for a given sector. Various sectors will face different sustainability challenges and different exposures to potential disruption. These risk and opportunities, as well as the way they impact sectors, are taken into account in this part of Candriam's ESG analysis. We then score the contribution of each of the more than 1,200 business activities covered in our ESG model to the relevant Key Sustainability Challenges from 0 (strongly detrimental) to 100 (strongly contributing), based on scientific reference and academic and industry expert knowledge.

A company's overall **Business Activity Score** will be the weighted average (based on revenue breakdown) of each of its business activities' contribution to the Key Sustainability Challenges that are relevant for its sector. This overall Business Activity Score at company level ranges from 0 (strongly detrimental) to 100 (strongly contributing) and reflects whether the company's activities are contributing to and being impacted positively or negatively by sustainable development.

ii. Stakeholder Analysis

The way companies manage their relationships with their stakeholders gives rise to sustainability-related risks and opportunities that are determinants of resiliency and can impact companies' long-term growth and value. How a company manages its stakeholders, i.e., takes into account their long-term interests in its strategy and operations, is essential in assessing whether a company conducts its activities in a sustainable and responsible fashion.

Candriam has identified six categories of stakeholders that are essential to current and future corporate sustainability and that can be impacted by corporate behaviours: the Environment, Society, Investors, Employees, Suppliers and Customers.

Our analysis starts with a materiality assessment at sector level that identifies and weighs the importance of each stakeholder to the company's ability to create long-term value. This assessment is based on sector and company reports as well as on research by non-governmental organisations (NGOs), where relevant.

Each company is evaluated on its ability to manage the interests of those stakeholders that are relevant to its sector. This assessment is conducted stakeholder by stakeholder, by carefully selecting the most relevant criteria and KPIs. A 0 to 100 rating will be given on each relevant criterion, then aggregated at stakeholder level, and then computed at company level, based on the importance (and associated weight) of each stakeholder.

Each company will thus obtain an overall **Stakeholder Score** between 0 (very poor management) to 100 (best possible management), that reflects how it treats its stakeholders.

iii. ESG Rating

Together, the Business Activities Score and the Stakeholder Score determine an **overall ESG Rating** for each issuer.

For each sector, a different level of materiality, i.e. importance (and thus weight), is given to the Business Activity and Stakeholder Analysis dimensions, depending on whether it is the sustainability of activities or the responsibility of practices that are key in determining companies' sustainable performance. A company's ESG Rating is determined by the materiality- weighted combination of its Business Activity Score and its Stakeholder Analysis Score. The ESG Rating can range between ESG1 (sustainability leader) to ESG10 (sustainability laggard / detrimental). An illustrative example of our ESG Ratings universe is shown below.

ESG Rating

iv. ESG Rating thresholds for ‘Sustainable Investment’

The overall ESG Rating constitutes a first criterion for meeting the philosophy of ‘Sustainable Investment’ outlined in SFDR and thus for being considered a ‘Sustainable Investment’. The thresholds applied depend on the type of company:

- For **developed country** companies: Companies must have an overall ESG Rating that is better than or equal to ESG5.
- For **emerging market** companies: Companies must have an overall ESG Rating that is better than or equal to ESG6.
- For companies in the **high yield** universe: Companies must have an overall ESG Rating that is better than or equal to ESG6.

It is important to note that meeting these thresholds constitutes only a first criterion that companies must fulfil to qualify as a ‘Sustainable Investment’. The other criteria are described in the sections that follow. These include additional criteria pertaining to environmental / social contributions as well as criteria pertaining to the DNSH principle and good governance practices.

b) Assessment of contributions to an environmental and/or social objective: Environmental / Social Contribution analysis (and resulting E/S Contribution Score)

In our assessment of whether companies conduct sustainable economic activities and whether they conduct them in a responsible fashion, the first step is the overall ESG analysis and resulting ESG Rating described in section 3.a above .

In addition to this first step, Candriam has developed and implemented a dedicated process for assessing and scoring the contributions of companies to environmental and/or social objectives. This process results in an Environmental (E) Contribution Score and a Social (S) Contribution Score for each company. The process is described in further detail below, as well as the thresholds that companies need to meet in terms of their E/S Contribution Score in order to be considered eligible for 'Sustainable Investment'.

i. Environmental Contribution

Candriam has developed and implemented a dedicated process for assessing and scoring the Environmental Contributions of companies. The process draws on specific elements of the two distinct but complementary analytical approaches that characterise Candriam's overall ESG assessment (described in section 3.a above): Business Activity Analysis and Stakeholder Analysis. The manner in which these two analytical levels are applied to evaluate Environmental Contributions is described in further detail below.

- ***Assessment at Business Activity level***

  Candriam's Business Activity Analysis consists of examining the exposure of companies' economic activities to Key Sustainability Challenges as well as the contributions of their activities to these challenges.

  In order to measure the contribution to environmental objectives, we analyse specifically how companies contribute to the Key Sustainability Challenges of Climate Change and Resource Depletion. Our analysis of these challenges covers in detail a broad range of environmental objectives, including mitigation of and adaptation to climate change, protection of biodiversity and in particular water resources, creation and adoption of circularity solutions, as well as pollution prevention and management. Moreover, for companies operating in sectors in which Digitalisation can make positive environmental contributions, for example by enhancing efficiency and optimising resource use, we will also consider the Key Sustainability Challenge of Digitalisation when assessing Environmental Contribution.

  For each Key Sustainability Challenge, we consider a wide range of factors and indicators to assess each company's contribution. A few examples of the metrics used with regards to Climate Change are listed below[3]:

  - Power generation mix
  - CO_2 emissions per km (for the sectors such as the automobile industry)
  - Fossil fuel exposure (for sectors such as banking)

[3] Please note that the sample metrics are provided for illustrative purposes only, and may vary at any time.

As a result of this analysis, each company is assigned a rating for each environmental-related Key Sustainability Challenge. These ratings – each weighted based on their relative materiality for the company's sector – are then aggregated into a Business Activity Environmental Contribution Score, ranging from 0 (worst) to 100 (best).

- ***Assessment at Stakeholder level***

Candriam's Stakeholder Analysis evaluates how sustainably companies manage their stakeholders and integrate their stakeholders' long-term interests into their strategies. In the context of our assessment of companies' Environmental Contribution, we conduct an in-depth analysis into how companies manage the Environment in particular.

The Environment pillar of the Stakeholder Analysis focuses on the assessment of environmental impacts and their management. It covers water consumption and related emissions, other atmospheric emissions, land use and biodiversity, disposal and recycling, and energy and climate change. Elements under consideration in this analysis include for example[4]:

- Environmental strategy (decarbonisation targets, GHG emissions trajectory)
- Capital allocation alignment
- Biodiversity strategy

This analysis results in a Stakeholder Environmental Contribution Score, ranging from 0 (worst) to 100 (best).

- ***Environmental Contribution Score***

The overall **Environmental Contribution Score**, ranging from 0 (worst) to 100 (best), is calculated by combining the two scores described above: the Business Activity Environmental Contribution Score and the Stakeholder Environmental Contribution Score. Each score is multiplied by its respective weight and the two are then combined to determine the overall Environmental Contribution Score.

ii. Social Contribution

Candriam has developed and implemented a dedicated process for assessing and scoring companies' contributions to social objectives. In order for this process to yield a thorough view of such contributions, it draws on our overall ESG assessment approach and takes into account two perspectives: the Business Activities perspective and the Stakeholder perspective, as detailed below.

- ***Contribution to social objectives at Business Activity level***

[4] Please note that the sample metrics are provided for illustrative purposes only, and may vary at any time.

Candriam's Business Activity Analysis consists of examining the exposure of companies' economic activities to Key Sustainability Challenges as well as the contributions of these activities to these challenges.

The Key Sustainability Challenges that are essential to grasping Social Contributions are Health & Wellness and, for certain selected sectors, the challenge of Digitalisation[5].

As a result of this analysis, each company is given scores for the relevant social Key Sustainability Challenges. The Business Activity Social Contribution Score is the weighted average of the scores obtained by the company for the selected Key Sustainability Challenges, ranging from 0 (worst) to 100 (best). The relative weights of each Key Sustainability Challenges are a function of their relative materiality for each specific sector.

- ***Contribution to social objectives at Stakeholder level***

Stakeholder analysis assesses how sustainably a company manage its stakeholder and thus whether it makes any contributions to its stakeholders' interests.

To measure the contribution to Social Objectives at the Stakeholder level, Candriam analyses, for all companies across sectors, how Employees and Suppliers are managed. The analysis of these pillars covers many themes including, recruitment and retention, working conditions, staff relations, and practices of suppliers.

Moreover, for certain selected sectors, the management of Customers and Society are also taken into consideration in the evaluation of Social Contributions.

Please find below some examples of considerations and metrics taken into account when evaluating companies' management of Suppliers:

- Labour practices of suppliers (social suppliers standards)
- Environmental practices of suppliers
- Geographic risk suppliers mapping

Each company is given a score for its relevant stakeholders ranging from 0 (worst) to 100 (best). These scores are multiplied by their respective weight, a function of their relative materiality for each specific sector. The average of these weighted scores is the Stakeholder Social Contribution Score.

- ***Social Contribution Score***

The two scores described above - the Business Activity Social Contribution Score and the Stakeholder Social Contribution Score - are combined into an overall **Social Contribution Score** for each company.

[5] Digitalisation is considered for sectors such as Telecommunication, Media and Entertainment, Software, Banks and Insurance, and Technology Hardware and Semiconductor.

iii. E/S Contribution Score and thresholds for 'Sustainable Investment'

The **Environmental Contribution Scores** and the **Social Contribution Scores**, described above, are used to determine whether companies meet the requirement of making contributions to environmental and/or social objectives and can thus qualify as 'Sustainable Investments', as outlined under article 2(17) of SFDR.

It is important to note that this requirement does not function in isolation. In fact, in addition to the requirement related to E/S Contribution Scores, companies must also meet the requirements related to overall ESG Ratings (described in section 3.a above) as well as requirements with regards to the DNSH principle and good governance criteria (described in sections 3.c and 3.d respectively).

- ***Sector eligibility for E Contributions only, or for S contributions only, or for either E or S contributions, and respective thresholds***
  Depending on the nature of the sector, we will evaluate the Environmental Contribution, the Social Contribution, or a combination of both. In order to be eligible for 'Sustainable Investment' companies must have an Environmental Contribution Score of 50 or higher and/or a Social Contribution Score of 50 or higher.

c) Assessment of the DNSH principle

Under the SFDR, the principle of 'Do No Significant Harm' (DNSH) is linked to the consideration of principal adverse impacts (PAIs).

Therefore, Candriam's process for assessing respect of the DNSH principle pays particular attention to the PAIs. These are taken into account through our negative screening (composed of Norms-based Analysis and Controversial Activities Analysis), through our overall ESG assessment with ongoing monitoring of PAIs (high PAI data), and through our stewardship activities (engagement and voting).

In addition, our negative screening also allows us to evaluate whether minimum safeguards with regards to international norms and conventions are in place and allows for the exclusion of activities that are harmful to environmental and/or social sustainability.

The ways in which we consider PAIs, and thus verify adherence with the DNSH principle under SFDR, are described below. Moreover, we describe below how we use negative screening to assess minimum safeguards.

i. Consideration of PAIs in the DNSH context

PAIs are defined as negative, material or likely-to-be material effects on sustainability factors (such as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters) that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity.

SFDR currently sets out 18 mandatory Principal Adverse Impacts (PAI), including indicators relative to greenhouse gas emissions, energy performance, biodiversity, water and waste, as well as social and governance indicators. Most of these PAIs are related to corporate issuers, some to sovereigns. Furthermore, there are 46 optional PAIs.

Candriam considers PAIs through four complementary approaches in its ESG research and analysis:

- Consideration of PAIs through negative screening

  Our negative screening comprises a Controversial Activities Analysis and a Norms-based Analysis of issuers' controversies. This negative screening can lead to the exclusion of companies, as outlined below.

  - Based on our Controversial Activities Analysis, Candriam implements company-wide exclusions covering activities that we believe exhibit a very negative profile from sustainability perspective, and consequently often also from a financial perspective. In fact, the downside of investing in these activities represents systemic and reputational risks which cannot be compensated for by any financial considerations. Candriam excludes such activities from all directly managed portfolios and encourages third parties to do the same. For example, Candriam excludes all companies directly involved in the tobacco industry, including those generating any revenue from manufacturing or more than 5% from retailing tobacco products. Additionally, we exclude companies deriving over 5% of their revenue from coal-fired power generation or new thermal coal projects. Such exclusions and strict revenue thresholds us to set minimum standards and avoid exposure to activities we consider to be harmful to the environment and society.
  - Candriam's Norms-based Analysis determines whether a company complies with the 10 principles of the United Nations Global Compact (UNGC) in the areas of Human Rights, Labour, Environment and Anti-Corruption, and to exclude companies that are in violation of these principles. This analysis also assesses whether companies are in violation of the principles of the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. In line with our aim to invest in a way to not do any significant harm, the Norms-based Analysis enables us to set robust environmental and social indicators and tolerance levels, against which exclusions or divestment would occur should they not be respected.

- Consideration of PAIs in overall ESG assessment:

  Consideration of PAIs in the DNSH context also occurs at through Candriam's overall ESG assessment. This assessment encompasses our Business Activities Analysis and Stakeholder Analysis, which allow us to examine the risks and opportunities that stem from companies' activities and operations, and to evaluate their potential PAIs:

- Business Activities Analysis: A strategic assessment of how companies' activities address, are exposed to and impact the Key Sustainable Challenges of Climate Change, Resource Depletion, Health and Wellness, Digitalisation and Demographic Evolution.
- Stakeholder Analysis: An in-depth evaluation of how companies manage and hence impact internal and external stakeholders, including the Environment, Society, Employees, Suppliers, Customers and Investors.

- <u>Consideration of PAIs in Stewardship (engagement and voting)</u>

  Candriam's engagement activities contribute to avoiding or reducing the extent of PAIs via dialogue and voting activities. Candriam's engagement policy is validated by our Global Strategic Committee and is reviewed annually. We priorities engagement based on the most material and relevant ESG challenges confronting industries and issuers by considering both the financial and societal / stakeholder impact (double materiality principle).

The tables below show different corporate PAIs are considered through the three aforementioned approaches - negative screening, overall ESG assessment and stewardship.

CANDRIAM'S CORPORATE SUSTAINABILITY FRAMEWORK															
		Overall ESG assessment											Negative Screening		Stewardship
		Business Activities					Stakeholder Management								
	Main Sectors Concerned[1]	Climate change	Res-source depletion	Demographic Evolution	Health & Wellness	Digital-isation	Environ-ment	Society	Employees	Suppliers	Customers	Investors	Controversial activities	Norms-based	Engagement & Voting
Indicators applicable to investments in investee companies															
Climate and other environmental-related indicators															
PAI 1. GHG emissions	Utilities, Mining, Energy, Construction	X[2]					X								X
PAI 2. Carbon footprint	Utilities, Mining, Energy, Construction	X[2]					X								X
PAI 3. GHG intensity of investee companies	Utilities, Mining, Energy, Construction	X[2]					X						X[3]		X
PAI 4. Exposure to companies active in the fossil fuel sector	Utilities, Mining, Energy, Transportation	X	X				X						X		X
PAI 5. Share of non-renewable energy consumption and production	Utilities, Energy	X	X				X						X[3]		X
PAI 6. Energy consumption intensity per high-impact climate sector	Utilities, Mining, Energy	X	X				X								X
PAI 7. Activities negatively affecting biodiversity-sensitive areas	Utilities, Mining, Energy		X				X							X[3]	X
PAI 8. Emissions to water	Utilities, Mining, Energy		X				X							X[3]	X
PAI 9. Hazardous waste and radioactive waste ratio	Utilities, Mining, Energy		X				X							X[3]	X
Social and employees, respect for human rights, anti corruption ant anti-bribery matters															
PAI 10. Violations of UN GC principles and OECD Guidelines for Multinational Enterprises	All											x		x	x
PAI 11. Lack of processes and compliance mechanisms to monitor compliance with UN GC principles and OECD Guidelines for Multinational Enterprises	All											x			x
PAI 12. Unadjusted gender pay gap	All								x			x			x
PAI 13. Board gender diversity	All								x			x			x
PAI 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)	Electrical Equipment, Machinery, Aerospace & Defense												x		x

CANDRIAM'S CORPORATE SUSTAINABILITY FRAMEWORK															
		Overall ESG assessment											Negative Screening		Stewardship
	Main Sectors Concerned[1]	Business Activities: Climate change	Res-source depletion	Demographic Evolution	Health & Wellness	Digital-isation	Stakeholder Management: Environ-ment	Society	Employees	Suppliers	Customers	Investors	Controversial activities	Norms-based	Engagement & Voting
Optional Indicators applicable to investments in investee companies															
Climate and other environmental-related indicators															
PAI 2. Emissions of air pollutants	Utilities, Mining, Energy	X			X										X
PAI 4. Investments in companies without carbon emission reduction initiatives	Utilities, Mining, Energy, Construction	X			X										X
Social and employees, respect for human rights, anti corruption ant anti-bribery matters															
PAI 4. Lack of a supplier code of conduct	Retailing, Energy, Mining, Paper & Forest									X		X		X[3]	X
PAI 5. Lack of grievance/complaints handling mechanism related to employee matters	Retailing, Energy, Mining, Paper & Forest								X			X		X[3]	X
PAI 6. Insufficient whistleblower protection	Retailing, Energy, Mining, Paper & Forest											X			X
PAI 8. Excessive CEO pay ratio	Bank, Auto, Energy, Mining, Machinery											X			X
PAI 9. Lack of a human rights policy	Auto, Energy, Mining, Food Beverage & Tobacco									X		X		X[3]	X
PAI 14. Number of identified cases of severe human rights issues and incidents	Real Estate, Construction, Mining, Energy, Retailing								X			X		X	X
PAI 15. Lack of anti-corruption and anti-bribery policies	Real Estate, Construction, Mining, Energy, Machinery											X		X[3]	X

[1] Non exhaustive list of material sectors
[2] Indirectly integrated
[3] Partially integrated

In addition to our analysis of corporate PAIs through negative screening, through overall ESG assessment and through stewardship, Candriam has also implemented a PAI monitoring process. This process is managed by Candriam's Risk Management and performed in collaboration with the ESG Team. It is focused on issuers exhibiting outlier characteristics, i.e. very high negative impacts.

As the first step in this process, Risk Management conducts an assessment to identify, on a monthly basis, such issuers exhibiting high PAI levels, i.e. PAIs higher than the 97.5th percentiles of their respective benchmarks[6]. Two categories of benchmarks are considered: One for developed investment-grade issuers (e.g., MSCI World, iBoxx Euro Corporate) and one for emerging and high-yield issuers (e.g., MSCI Emerging Markets, ICE Global High Yield).

The companies that have been identified as exhibiting outlier features are then analysed, in a second step, by Candriam's ESG Analysts in order to determine the consequences of their PAI levels for their eligibility as Sustainable Investments. Rather than relying merely on hard exclusions based on "absolute thresholds", our assessment here is qualitative in nature. Taking into consideration data quality as well as each company's specific circumstances and actions to moderate adverse impacts provides for a more comprehensive and nuanced evaluation. It enables Candriam to factor in an issuer's ongoing efforts to address its impacts and their future potential for sustainable development. This approach is designed to ensure that investments align with sustainability objectives and mitigate adverse impacts.

[6] The analysis is performed on PAIs that are neither binary (Yes/No) nor expressed in percentages (capped/floored between 0 and 100).

Following on this analysis, issuers can be included in dedicated engagement lists, when dialogue can serve to address specific issues pertaining to PAIs.

ii. Assessment of Minimum Safeguards

- Norms-based Analysis

  We conduct in-depth research into corporates' compliance with international norms and standards. Companies that significantly and repeatedly breach any of the ten principles of the United Nations Global Compact (UN GC) in the areas of Human Rights, Labour, Environment and Anti-Corruption, as well as companies that do not conform with the guidelines for multinational enterprises defined by the OECD, are not eligible for 'Sustainable Investment'.

- Controversial Activities Analysis

  Candriam's in-depth analysis of controversial activities[7] allows for the exclusion of companies that carry out activities that do significant harm to sustainability objectives. These companies are not eligible for 'Sustainable Investment'.

Pour plus de détails sur la mise en œuvre du principe du « Ne Pas Causer de Dommages Significatifs » par Candriam, veuillez vous référer au document suivant : DNSH consideration within Candriam's ESG analysis under the SFDR.

d) Assessment of good governance practices

Candriam assesses companies' compliance with good governance practices, as outlined in SFDR, through the Stakeholder Analysis that is part of our overall ESG assessment, as well as through our Norms-based Analysis.

i. Stakeholder Analysis

Candriam's Stakeholder Analysis evaluates a company's ability to sustainably incorporate its stakeholders' interests into its long-term strategy, and its potential positive or negative impact on these stakeholders. These stakeholders are the Environment, Society, Employees, Suppliers, Clients and Investors. Thus, Stakeholder Analysis examines a company's interactions with its stakeholders and assesses the quality of management of these interactions.

[7] For a detailed description of the controversial activities targeted by this analysis, please refer to the Candriam Exclusion Policy

The relation with Investors encompasses an examination of the decision-making structures and rules of how the company is governed as well as of the long-term prospects of the company to adapt to a changing world and sustain its profitability. Board accountability, audit and reporting practices, the respect of investors rights, remuneration, sustainability strategy and sustainable profitability are all criteria that are considered during the assessment.

Furthermore, the assessment of good governance includes an examination of the stability of senior and operating management, of the transparency and stability of reporting and operating execution, of medium- and long-term strategy, of the level of value-enhancement of acquisitions and investments, etc. Operations are assessed over time and relative to peers – market share gains, innovation, meeting of customer needs, and working capital management. The dividend and shareholder history are reviewed in determining whether management is shareholder friendly.

Companies for which this analysis reveals deviation from good governance practices will not be eligible for 'Sustainable Investment'. A quantitative threshold is also set for this analysis: Companies that obtain an Investors Score inferior to 10 will excluded.

ii. Norms-based Analysis

As part of our Norms-based Analysis, we extensively examine companies' alignment with good governance principles.

For example, with regards to the criteria outlined in the area of Anti-Corruption under the UN GC, we analyse corporate governance and examine if businesses work against corruption in all its forms, including extortion and bribery.

Our screen excludes companies failing to promote measures to prevent and combat corruption efficiently and effectively as well as those failing to promote integrity, accountability and proper management of public affairs and public property. This includes, among others, severe controversies regarding the bribery of public officials, abuse of functions, illicit enrichment, financial obstruction or irregularities, tax evasion or otheranti-competitive practices.

Companies that are excluded based on this normative filter will not be eligible for 'Sustainable Investment', in accordance with the principles laid out in SFDR.

Moreover, as part of our Norms-based Analysis and with regards to the criteria outlined in the area of employee relations, we extensively examine companies' alignment with good labour practices. ESG Analysts continuously monitor issuers to identify any controversies with regards to these practices. When a controversy is identified, Analysts assess its magnitude and severity, as well as the issuer's reactivity and the credibility of its response. Based on this analysis, controversies are classified according to a traffic-light system. Thus, our screen excludes companies failing to ensure workplace security, social protection, better prospects for personal development and social integration. Businesses should also focus on non-discrimination, equal opportunities and treatment (including for men and women), and freedom to express workplace concerns.

4. Sovereign ‘Sustainable Investments’

Candriam’s sovereign ESG analytical framework allows us to set clear requirements and minimum thresholds to identify if an investment in a government bond can be considered a ‘sustainable investment’.

Candriam’s sovereign sustainability analysis is structured around the following pillars:

- **Sustainable development criteria**: Human Capital, Natural Capital, Social Capital and Economic Capital
- **In-depth negative screening**: Oppressive Regimes List, Financial Action Task Force (FATF) Call for Action List, Freedom House Freedom in the World Index

Our eligible sovereign universe consists of those countries which perform best across the sustainable development criteria and are not excluded by our in-depth negative screening assessment.

The table below shows how the two sovereign PAIs are covered by these pillars that make up our analytical framework:

CANDRIAM SOVEREIGN SUSTAINABILITY FRAMEWORK							
	Sustainable Development Criteria				In-depth Negative Screening[1]		
	Natural Capital	Human Capital	Social Capital	Economical Capital	Candriam's Oppressive Regimes List	Financial Action Task Force Call for Action List	Freedom House's Freedom in the World Index
Indicators applicable to investments in sovereigns & supranationals							
Climate and other environmental-related indicators							
PAI 15. GHG intensity	x						
Social and employee, respect for human rights, anti-corruption, and anti-bribery matters							
PAI 16. Investee countries subject to social violations		x	x		x		x
Optional Indicators applicable to investments in sovereigns & supranationals							
Social and employee, respect for human rights, anti-corruption, and anti-bribery matters							
PAI 18. Average income inequality score			x				
PAI 19. Average freedom of expression score			x		x		x
PAI 20. Average human rights performance			x		x		x
PAI 21. Average corruption score			x				
PAI 22. Non – cooperative tax jurisdictions				x			
PAI 23. Average political stability score			x				
PAI 24. Average rule of law score			x		x		x

[1] Discretion is applied to countries that are violators of international agreements or are likely to experience a material deterioration of their sustainability status, but such violations or deterioration are not yet reflected in the available data.

i. Sustainable development criteria

Countries’ positive contribution to an environmental or social objective is assessed across four sustainable development criteria –**, Natural Capital, Human Capital, Social Capital and Economic Capital.**

These four capital domains are each decomposed into several components, which in turn are broken down into underlying issues. Each issue incorporates a wide range of ESG factors that 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. In total, our framework considers more than 400 individual factors. These factors are evaluated 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.

While all countries are analysed using the same capital domains, components, issues, and factors, the relative importance of each of these elements is calibrated to the specificities of each country and hence to their particular relevance for the specific country's current and future sustainability. In fact, our assessment of analytical materiality evaluates the relevance of each factor for each country at every level of development and point in time over the last 10 years.
Examples of the matters examined and types of KPIs used in the evaluation of the four domains of sovereign capital are provided below:

- **Natural Capital**
  Our Natural Capital KPIs are designed to assess how a country conserves and sustainably employs its natural resources. We evaluate how a country manages its interactions with global environmental challenges such as climate change, consumption of resources, stewardship of biodiversity, and waste handling.
- **Human Capital**
  Our KPIs in the Human Capital domain assess economic and creative productivity, by evaluating education and skill levels, innovation, health, labour participation rates and employment ratios, among other sustainability themes.
- **Social Capital**
  Social Capital indicators evaluate civil society and state institutions, including transparency and democracy, government effectiveness, corruption, inequalities, and the populations' level of security. We monitor respect for human rights and civil liberties (freedom of expression and belief, associational and organizational rights, personal autonomy and individual rights, and minority rights), primacy of the rule of law and absence of corrupt practices, as well as good democratic governance (democratic accountability, political stability, government effectiveness, and judicial effectiveness).
- **Economic Capital**
  In the Economic Capital domain, we conduct 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.

In a first step, the analysis results in a **Human Capital Score, a Natural Capital Score, a Social Capital Score and an Economic Capital Score**.

Importantly, our sovereign analytical framework reflects the urgency of dealing with the environmental challenges that our world faces, as well as the fact that Natural Capital is finite and cannot be replaced by other forms of capital. Therefore, in a second step, the Human, Social and Economic Capital Scores of each country are each multiplied by the country's Natural Capital Score. Thus, we obtain **environmentally weighted Human, Social and Economic Capital Scores**, which reflect how environmentally efficient a country is in developing its Human, Social and Economic Capitals. As a third step, the **overall sustainability rating of a country** is computed: It is the average of the three environmentally weighted capitals. Countries are ranked according to this arithmetic average.

Our sovereign ESG analytical framework embeds the UN Sustainable Development Goals (UN SDGs), which are covered through the four sovereign capital domains, as shown in the chart below:

ii. In-depth negative screening

An in-depth negative screening is performed relating to high-risk regimes and minimum standards of democracy. We exclude countries that are deemed to be totalitarian/ authoritarian regimes. In addition, we exclude the worst violators of human and political rights (oppressive regimes) on a company-wide basis. Accordingly, countries are excluded if they do not pass the following filters:

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

In addition, discretionary exclusions can be is applied to countries that are violators of international agreements or are likely to experience a material deterioration of their sustainability status, but such violations or deterioration are not yet reflected in the available data.

For each country, Candriam assesses the positive contribution to an environmental or social objective through the sustainable development criteria outlined above and applies the aforementioned in-depth negative screening. Countries that are not in the bottom 25% ranked countries and that pass the negative screening are considered 'Sustainable Investments'.

5. Supranational ‘Sustainable Investments’

Candriam’s supranational approach to sustainable investments is structured around an assessment of supranational organizations’ missions and alignment with minimum safeguards, international norms and conventions.

A supranational issuer is considered a Sustainable Investment if its mission makes a positive contribution to the economic and social development of regions and countries, if it complies with the principles of sustainable development, and if it does not commit any major systematic breaches of the principles of the UN GC.

6. Implementation in Article 9 funds

- Minimum of 80% invested in Sustainable Investments, including direct investments and long exposure of single-underlying derivatives.
- Maximum 20% invested in non-Sustainable Investments. This exposure can be allocated to cash and (non-single name) derivatives. Further, issuers that met the criteria for Sustainable Investments at the moment of the investment but no longer do and will thus be sold, may be accounted for in this exposure.

7. Implementation in Article 8 funds

- Minimum of between 0% and 33% invested in Sustainable Investments, depending on the strategy and its process. For instance:
    - Strategies with ESG labels and health care strategies: Minimum of 33% in Sustainable Investments
    - Corporate bond strategies and thematic strategies: Minimum of 20% in Sustainable Investments
    - Emerging market equity strategies and high yield strategies: Minimum of 10% in Sustainable Investments

8. Treatment of derivatives and investments in funds

Derivatives

Long exposure of single underlying derivatives is considered a Sustainable investment if the underlying issuer is considered sustainable.

Other derivatives (on indexes, short exposure etc.) are part of the 'non-Sustainable Investments' category.

Funds

In case of investments in UCITS and/or UCI, the proportion of sustainable investments is assessed - when possible - via a look-through approach and by applying Candriam's definition of Sustainable Investment.

In case look-through is not performed, Candriam may use the actual or minimum percentage of Sustainable Investment available in the European ESG Template, periodic or pre-contractual document of the UCITS and/ or UCI. Please note that in this case, Candriam relies on external methodology for the Sustainable Investment definition, described in the funds' respective due diligence processes.

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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.