



# **Stewardship @ Candriam: Engagement policy**

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Candriam fully endorses the revised Stewardship Code released in 2017 by the European Fund and Asset Management Association (EFAMA). The present policy – as regards the ESG part – is compliant with it.



## A. Introduction

The Investment Stewardship concept calls on investors to use all means at their disposal to create:

- long-term value for their clients and beneficiaries;
- sustainable benefits for the economy, the environment and society.

Stewardship serves in particular investors' ESG interests and enables them to exercise their power of influence notably through engagement activities, namely

- the AGM votes cast;
- discussions with issuers on ESG matters assumed to be material to future outlook.

Within its activity of funds and portfolio management, Candriam integrates as far as possible shareholder engagement in its investment strategy.

Candriam monitors investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance.

Where Candriam considers that its influence could be useful, it conducts dialogues with investee companies, exercises voting rights and other rights attached to shares, cooperates with other shareholders, and communicates with relevant stakeholders of the investee companies.

As a matter of fact, Candriam considers that, even if it might not really impact and generate investee company change on performance, risk, capital structure and environmental, social & governance by dialoguing with the investee companies or by cooperating with other stakeholders, divestment from those companies is the final decision.

However, Candriam *will* use its relationship with the investee companies to monitor the companies and glean useful information on relevant matters that could be used for both an ESG and a fundamental analysis of the investee companies.

The present policy has been essentially developed on Candriam's engagement relating to ESG matters.

## B. Our Engagement Fundamentals

Since 1996, Candriam has committed to being a responsible asset manager by investing for the long term. We firmly believe that we better value issuers by taking ESG factors into account, as this lets us capture further material opportunities and risks, contributing, in turn, to better-informed investment decisions. Convinced of their value, Candriam was one of the founding signatories to the UN Principles of Responsible Investment<sup>1</sup> (PRI) back in 2006 and has continued to support this initiative ever since.

In line with the PRI principles, we dedicate resources to ESG research and analysis and continuously promote the synergies between our ESG experts/teams and our portfolio managers.

As a responsible asset manager, we also engage – on our clients' behalf – in dialogue with issuers to influence their activity or behaviour, through both direct/collective engagement and voting-related activities, the latter relevant to listed equities only. We consider active ownership, and engagement in particular, as core contributors to risk mitigation but also to the protection and enhancement of long-term

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<sup>1</sup> <https://www.unpri.org/>

value creation for our clients. They are integral parts of Candriam’s fiduciary duty to our clients, supporting an overall investment strategy exercised with reasonable care, skill and caution.

Being a responsible investor relates not only to risk mitigation and the capture of opportunities: it is also a way to have a positive impact on society by addressing ESG topics and to change practices for the better.

More specifically, Candriam fully recognizes and endorses the role investors must play in the achievement of the ambitious Sustainable Development Goals (SDGs), part of the UN 2030 Agenda for Sustainable Development, a plan of action for People, Planet and Prosperity.

That’s why Candriam’s engagement scope covers issuers’ business models, mix of products and related strategy, as well as operational management, addressing the full spectrum of SDGs which question and invite recognition of corporates’ added value to society.

## **C.Our Objective: targeted & informed engagement**

Continuous improvement is fundamentally included in the United Nations Principles of Responsible Investment (PRI), with the intrinsic idea that investors should feed a virtuous circle through communicating best practices to companies and through the more systematic integration of ESG considerations into fundamental analysis. The continuous monitoring of our opinion is a necessity in which engagement plays a crucial role.

In line with the PRI, the four pillars of our engagement process are:



These pillars, which provide an efficient framework for discussions with issuers, remain mutually non-exclusive, as we may have to deal with multi-target dialogues.

### **I. Encouraging improved ESG disclosure**

This is the first step in our engagement action, supporting internal ESG research and analysis, and performed at the beginning of the sustainability analysis process or research project. This step is triggered either by the lack of public disclosure on ESG-relevant topics or by a specific event requiring a response/statement from the issuer involved.

This kind of engagement is key to ESG analysis and to the mainstreaming of ESG factors in investments, as comparable and reliable data are needed for the delivery of objective and well-informed assessments.



## **II. Supporting investment decision-making**

Such engagement activities occur:

- within our ESG analysis framework, when Candriam wants to inform issuers of the final opinion we have opted for, and the main elements underpinning our decision;
- systematically, following the occurrence of an event deemed controversial and/or material (e.g., breach of UN Global Compact principles), leading to the inclusion of the issuer's name on our watch list. In that sense, any company turning non-eligible on normative-analysis grounds is contacted.

In both cases, as the initiated dialogue may result in more constructive exchanges, it falls into our third category of engagement: influencing practices.

## **III. Influencing corporate practices on ESG issues**

Related engagement aims at encouraging issuers to adopt/adhere to recognized standards/norms or more common practices, so that they can better anticipate and manage specific ESG risks and opportunities.

Such engagement activities occur when we estimate that the issuers in question may lose their competitive edge and/or jeopardize their mid-/long-term valuation through being unprepared for changing market conditions because they have not properly managed an ESG topic. Such a situation justifies our support of improved preventive or healing measures.

More specifically, engagement activities pre- or post-the Annual General Meetings (AGMs), as well as voting itself, belong to this pillar. When contacting issuers, Candriam presents its voting policy and the rationale behind specific controversial voting recommendations, advocating change towards best practices in the field.

## **IV. Supporting the development of sustainable finance**

Candriam advocates sustainable development on the financial markets by sharing its ESG expertise with its clients, the media and the investment community at large.

More specifically:

- Roadshows are regularly organized for clients.
- ESG mainstreaming and research is promoted through, inter alia, the Candriam Academy and the Candriam Institute for Sustainable Development.
- Candriam speaks at various conferences and external events, in Europe and further afield.
- Candriam is an active member of responsible investment (RI) forums and asset management industry bodies (through RI working groups).



## D. Definitions, Approach & Resources

### I. Scope of Engagement

Engagement activities refer to interactions between Candriam and

- **Current or potential investees on Environmental and/or Social and/or Governance issues (ESG).**

Targeted investees may be corporates (or groups thereof), governments or affiliated bodies (municipalities, agencies, supranationals, ...) with a presence in one or more asset classes such as listed equities or fixed income.

- **Entities which, through their competences and/or authorities, are able to influence or initiate changes in the regulatory or market framework involving ESG aspects.**

They do not include interactions with investees for data collection or research for the sole purpose of feeding buy-/hold-/sell-/weight-related portfolio decisions.

Our scope of engagement covers all types of issuers and regions, and is based on Candriam's full investment coverage, with priority given to our ESG analysis coverage. Engagement activities targeting public bond issuers are mainly initiated via collaborative initiatives, the objective being to secure more leverage to incentivize countries and international organizations.

The formal process for identifying and prioritizing the engagement activities is done within our previously described four-pillar framework, taking into account:

- the materiality of the issue;
- the impact within the SDG spectrum;
- the presence of the issuer/company in the portfolios as well as the interests of our investment team and the potential leverage.

Most of the time, Candriam engages with companies' representatives. Stakeholders interested in the companies we invest in may also be contacted. They may belong to different categories of actors: nonprofit organizations, unions, industry federations.

Such interactions enable us to improve and sharpen our sector knowledge and to share our views on important and material topics.

Candriam's proxy voting policy applies to the open-ended funds which are managed by an entity of the group. This policy also applies to dedicated funds and mandates if the underlying client has given their agreement to the application of such policy.

All details related to the scope and application of our voting policy can be found in the publicly released Candriam Voting policy document<sup>2</sup>.

### II. Responsibilities

All Candriam's ESG engagement initiatives fall under the responsibility of the ESG Research & Investment team, which works in close collaboration with the portfolio managers, who are regularly

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<sup>2</sup> Available under <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>



informed of engagement follow-up, can take part in the dialogue and are involved in any decisions involving escalation or ineligibility.

The ESG Research & Investment team is in charge of:

- the ESG analysis of our ESG investment scope, our ESG thematic research and the development of new and innovative investment and/or selection processes;
- the monitoring, development and enforcement of Candriam’s engagement strategy across the whole company;
- the steering of the voting policy, including its implementation;
- the promotion of the best ESG standards, Sustainable & Responsible Investment and ESG integration.

Within the ESG Research & Investment team, dedicated ESG analysts are in charge of engagement activities.

As a result, while ESG Research & Investment team members are primary actors for initiating dialogue on ESG topics with issuers, Candriam fundamental analysts and equity or bond portfolio managers are encouraged and incentivized to raise ESG topics in their exchanges with issuers. In that sense, ESG integration has undoubtedly fostered closer ties and cooperation among teams in this area. When this occurs, the ESG Research & Investment team centralizes the information and makes it available to interested parties via a dedicated tool.

### III. Type of Engagement

Candriam’s engagements are **both proactive and reactive**, depending on the trigger.

The choice between **direct or collaborative** dialogue will depend upon several factors.

Individual dialogue is prioritized but a collaborative approach is preferred when:

- the interlocutor is a country, a group of countries, an international organization or any authority in which we are not a shareholder;
- the history of individual dialogue with the corporate issuer in question is sub-optimal;
- an opportunity arises to engage with others on the topic in question with a shared understanding of it, while avoiding issuers’ fatigue in answering similar questions;
- greater leverage is needed;
- economies of scale are required (large number of companies to be contacted on the same topic);
- further media coverage is expected to raise public attention on the topic under consideration.

For collaborative initiatives we join, we can usually choose the issuers on which we wish to be more active.

We can actually **lead the engagement with the issuer**, organizing regular group-update calls, providing an engagement evaluation framework for other participating investors, contacting companies in the name of the group and participating in meetings or calls. We can also **choose to support initiatives actively** without taking the lead but helping lead investors in the engagement process (preparing and/or participating in calls/ meetings). Ultimately, for issuers we have proportionally less interest in, we opt for a **more passive attitude**, being signatories of letters and named as supporting investors but without actually participating in any of the calls/meetings organized with the issuers.





For all collaborative initiatives we sign, Candriam commits, through its commitment or signature, the totality of its assets under management.

## IV. Our Conviction Topics

Since 2015, in the context of its engagement activity, Candriam has chosen to promote three long-term engagement topics: our **conviction topics**.

BUSINESS ETHICS 

ENERGY TRANSITION 

FAIR WORK CONDITIONS 

These topics are put forward, when relevant, by both ESG and financial analysts when dialoguing with companies. Aligned with the UN SDGs, they are undisputedly seen as important to the community, and their materiality is acknowledged across the value chain: they are part of Candriam's fiduciary duty.



## CONVICTION TOPICS<sup>3</sup>



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<sup>3</sup> More information in our [2017 Engagement Report](#)



## ENERGY TRANSITION



Candriam adheres to the definition of Energy Transition as the shift towards a zero-carbon economy through renewable energy sources and energy efficient solutions, designed to keep global temperatures below 2°C.

The challenge is all the higher in that the world faces a rise in energy and consumption demand (+20% over the last decade). Our world energy landscape dominated for years by oil is thus definitively moving towards more renewable resources, giving way to a lower carbon economy with greater support for gas and renewables. According to the IEA, these will account for more than 50% of the global energy supply by 2040, compared with 36% in 2016. Issuers' margins and capital expenditures will definitely be impacted, as will their creditworthiness, depending on their ability to respond to the change, and to new market opportunities and risks.

The financial sector is highly exposed through both physical and transition risks, while divestment cannot be considered the only solution: the estimated combined exposure to sectors affected by energy transition is 45-47%<sup>1</sup>. This comprises both a wide range of opportunities like the boom in Electric Vehicles but also a large panel of risks, including stranded assets, the increased cost of raw materials, the costs involved in the transition to lower-emission technology or products/services and also the costs of related innovation and wrong choices or change in customer behaviour.

### Objectives of the Engagement :

- **Improved access to information** for the better assessment of companies' exposure to climate risks & opportunities,
- Supporting **alignment to TCFD Recommendations**<sup>2</sup>: Climate- Governance, Strategy, Risk Management, Metrics & Targets,
- Encourage efforts to improve of **Scope 3 disclosure**.

## FAIR WORK CONDITIONS



Candriam believes in the respect of fundamental and recognized labour & human rights standards.

As reported in 2016 by the UN Business and Sustainable Development Commission, job-related injuries and sickness kill more than 2.3 million people every year, between 20 and 40 million people work in forms of forced labour and more than 165 million children are involved in child labour, half of whom are occupied in hazardous work. Strengthening the 'social contract' is a necessity we want to highlight in our dialogue with companies.

Associated financial risks and opportunities are equally pronounced further down the supply chains, with recent regulation designed to hold firms accountable for it<sup>3</sup>. In recent years, several events reminded all economic actors, including investors, of their duties but also demonstrated how issuers' tangible and intangible value could become heavily affected by work condition allegations: named brands are suffering from a tarnished reputation but are also seeing fluctuations in their returns due to supply chain disruption, increased production related costs not initially planned, and the search of alternative suppliers. For some companies directly involved, such allegations have led to multi-million pound fines and settlements, a loss in management confidence and a persistent fall in the share price.

### Objectives of the Engagement:

- Proper evaluation of the **effective respect of international labour and human rights standards** across the value chain : policies, strategy & resources, performance;
- Support for the effective consideration of **Human Capital as a company's core asset**, being part of companies' risk mapping process.

## BUSINESS ETHICS



Candriam encourages high standards of Business Ethics, more especially under the clients' and authorities' relationships component, with a focus on:

- the avoidance of market distortion and the promotion of transparency at sales level, which include the prevention of dumping / price-fixing / corruption practices as main concerns;
- the transparency and fairness of lobbying or tax practices.

The materiality of the topic is a reality for companies facing tougher enforcement of the law (US FCPA, UK Bribery Act, French Loi Sapin II or recent EU settlements) and greater public scrutiny, fed by media and non-profit organisations (Panama Papers, Paradise Papers, Unaoil scandal...). This results in the manifold potential direct or indirect impacts dealing with reputational, operational, financial and legal aspects, including those that affect a company's intrinsic value: fines and related legal costs, loss of confidence in top management, blacklisting, nullification of contracts, seizure of assets, tax reimbursements, loss of productivity and talent drain or the extra costs of an emergency upgrade to the compliance system.

### Objectives of the Engagement:

- An evaluation of whether relevant policies and organization, and human and material resources, are in place to ensure the **proper prevention and detection** of, and response to, unethical practices;
- Promoting a **zero-tolerance objective** in a continuous improvement framework.

## V. Other main axes of engagement



Among our main axes of engagement, special focus is placed on **ESG-eligible** companies presenting shortcomings in terms of ESG best practices. Dialogue increases the chances of improved ESG practices at these companies, which we consider as true investment opportunities.

The **exercise of voting rights** also enables several forms of engagement: Candriam exercises its voting right in line with its voting policy, which is public and available on our website. Transparent disclosure of our votes at AGMs is a first signal sent both to issuers and to third parties as it highlights any potential divergences in views between Candriam and investee companies.

Pre- and post-AGM dialogues are initiated with investee companies when:

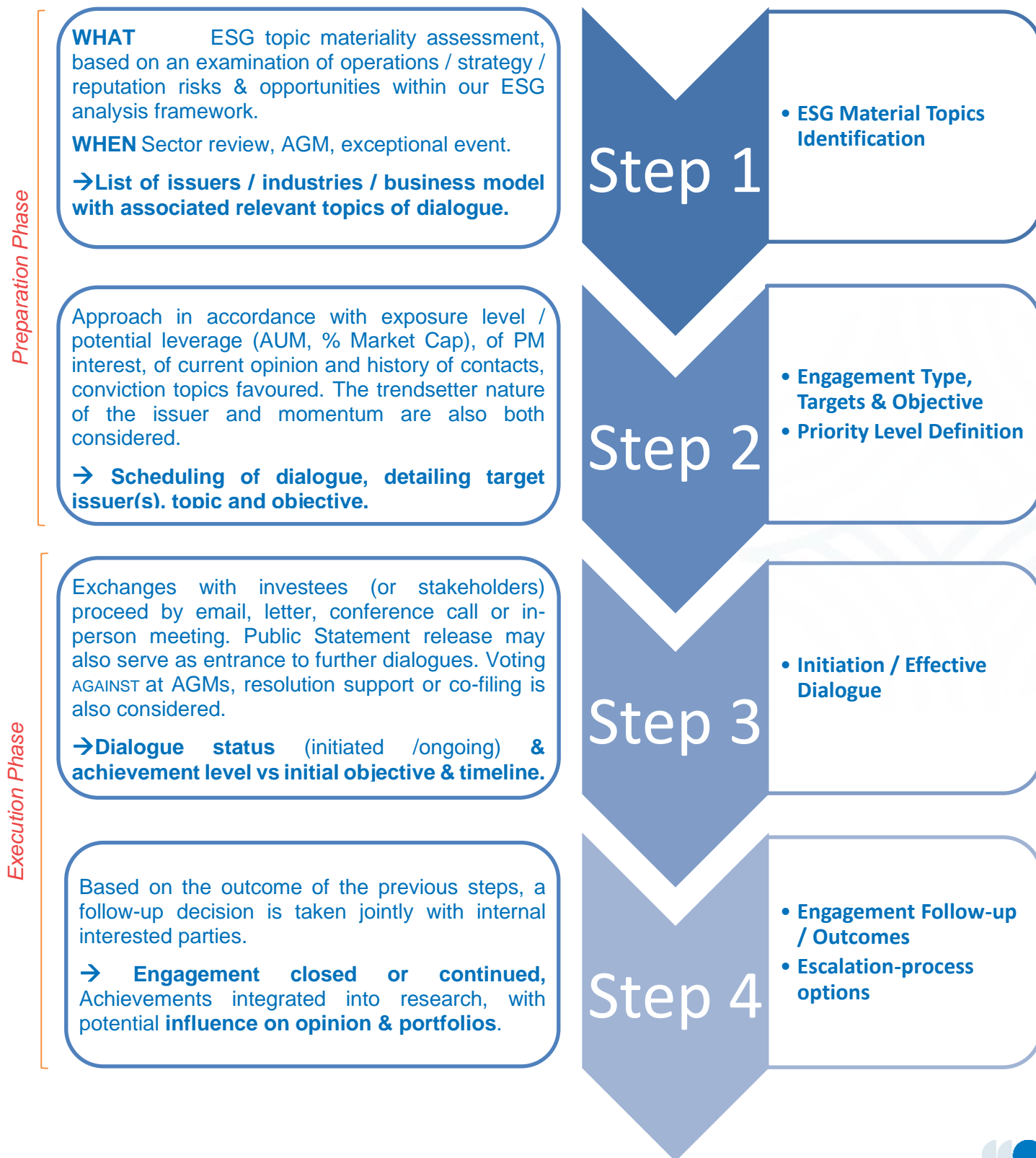
- management resolutions presented to the AGM induce serious concerns. Lack of transparency, highly controversial levels of remuneration as well as a board's lack of independence are definitive triggers for entering into dialogue with investees, notably if similar concerns were raised at previous AGMs;
- we choose to support a shareholder resolution which the management opposes, considering this resolution addresses a topic we assume to be material to the investee;
- we agree with some of the arguments listed in a shareholder proposal, choose not to support it but would like the investee to be aware of our opinion.

Such exchanges enable Candriam to uphold the principles of good corporate governance and sustainable development. They give us more insight into voting and help improve corporates' awareness of investors' expectations.

We leave open the possibility to file or co-file a resolution when the possibilities for dialogue are exhausted or prove to be without effect, or when the situation requires an urgent change.

While the above axes of engagement are recurring and planned, other triggers will prompt us to start a dialogue with issuers. The next chapter will detail our general approach but also shed more light on these.

## E. Stages of Engagement & Timeline



**A good knowledge of the ESG challenges** faced by industries and issuers, and of their respective **materiality**, are the necessary **entry points** to any engagement initiative, individual or collective.

In that respect, the main objective of ESG sector analysis is to identify first the most material topics from an operational, strategic and reputation perspective. Country analysis adopts a comparable framework, focusing on a country's long-term sustainable development potential.

Such **analysis** is **regularly performed** but may **also** be **prompted by exceptional events** such as an acquisition, a change in the issuers' business model or a controversial event (accident, investigation announcement, charges laid down by stakeholders). In that case, the analysis aims not only at identifying both the impact and the materiality of the event on issuers' value, but also how they, and eventually their industry, adapt themselves and/or respond to the event in question.

**Building upon this** first step of identifying ESG material topics, **priorities and timeline of engagement** can be defined and/or updated also in light of:

- Candriam's level of exposure (assets);
- Candriam portfolio managers' and analysts' interests;
- The topic of engagement and how it fits in with Candriam conviction topics and other ESG priority topics, including those for which Candriam clients have expressed an interest;
- The current ESG opinion on the issuer (e.g., presence on ESG watchlist);
- The trendsetter nature of the issuer in question, and thus the potential impact that any change at this issuer level might induce in market practice or the market approach to the issue in question.
- The nature of the trigger: for example, the ante-AGM period appears the best time for a discussion on governance topics with top management. Contact is initiated quickly when an incident occurs and has an assumed or proven material impact on one or more issuers, and when analysts need further precisions to review their opinion.

Whether we opt for individual or collective dialogue, our **contact point** will be **chosen based on our history of contacts** with the issuer in question, and on how our potential interlocutor's position can match with the topic of engagement.

Whatever the topic is, the initial contact is almost systematically done through investor relations and sometimes directly with the Corporate & Social Responsibility department.

In parallel, we may contact stakeholders to better balance our opinion.

At that stage, there is a choice of status for engagement with an issuer:

- Initiated: when contact has been taken with the issuer;
- Ongoing: when the issuer has answered and when we discuss further with their representatives.



**Once dialogue has started, and depending on the quality of the exchanges and the interest of internal parties, a follow-up approach and potential escalation measures can be defined.** Several decisions can be taken, not mutually self-exclusive:

- Engagement is continued: the objective of the dialogue appears achievable but with an extended deadline;
- Engagement is closed: the prescribed objective either was achieved or does not appear achievable;
- An escalation process has been triggered: the objective was not met but is still assumed to be achievable and material enough for us to pursue our efforts under another form.

**When triggered, the escalation process may differ, depending on the history** (type of engagement, length, quality of the relationships), **the context of the dialogue** (period of the year, client-specific investment policy, market/media/NGO/client pressure) or new rising opportunities.

In the escalation steps (not mutually self-exclusive) below, Candriam is ready to consider:

- Joining or launching a collaborative initiative having similar objectives to the previous dialogue and potentially extended to industry or region level;
- Exercising voting rights against management to show Candriam’s disagreement on practices or strategic choices;
- Starting an individual dialogue (e.g., after a vote against management during the AGM);
- Supporting or filing a shareholder resolution;
- Reading a statement at the AGM to raise both management and shareholder awareness;
- Changing the ESG eligibility status of the company with divestment consequences, the issuer being systematically informed.

**The ESG profile of the issuer and/or analysis model are systematically updated** to take into account the engagement content and its outcomes. **ESG opinion on, and the eligibility status of, the issuer is updated accordingly**, when needed.

## **F. Monitoring & follow-up of engagement**

The ESG Research & Investment team ensures the monitoring of the engagement activities on a daily basis, collaborating with representatives of the investment teams.

Regular cross-team meetings enable, in particular, a review of the engagement programme/roadmap, to discuss and to decide/rule on any further course of action.

In order to ensure good follow-up of our engagement activities, we monitor several indicators.

The **monitoring indicators** deal with:

- Dialogue status: prepared/initiated/ongoing/closed – for both individual and collaborative dialogues;
- Objective of the dialogue : improved disclosure, decision support, influence;
- Context of the dialogue: conviction topics, proxy voting engagement, other;
- Topics of dialogue: E, S & G, and the main SDGs involved.





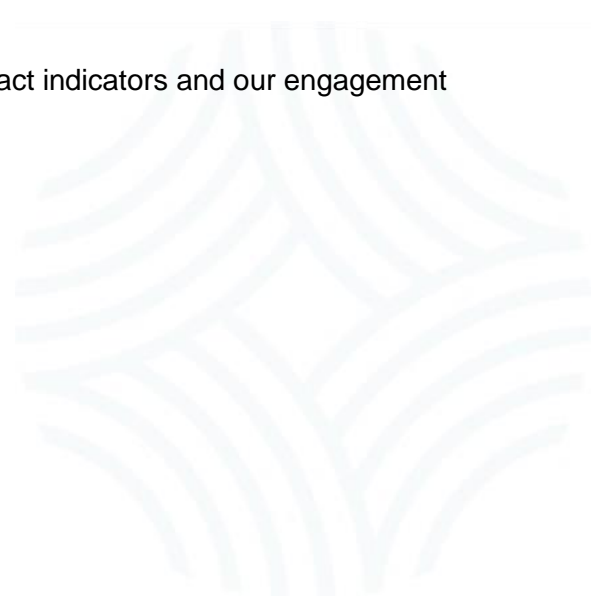
There are several ways to assess the **impact of our engagement activities** and their outcomes:













- **The impact on the issuer's level of awareness**, their strategy and/or their practices, depending on the initial objective of our engagement (cf., Chapter 3). As this impact is often delayed (e.g., improved disclosure, occurring at the same time as disclosure of the annual documents), it is the most difficult to ascertain/estimate.
- The impact **on Candriam's research and opinion**, as dialogue content feeds analysts' work and influences decisions. Whether or not the company chooses to answer our demands in detail and eventually change its practices, (non-)answers influence ESG analyst opinion, as company transparency is already a source of input for ESG analysis.

We adopt a simplified indicator, specifying whether continued or closed dialogues contributed to a change in the eligibility status of the company or, conversely, vindicated ESG analyst opinion.

Ultimately, the impact of our engagement activities should be reflected in the Impact Indicators we use to measure the performance of our strategies and funds.

Here below you will find an illustration of the links between these impact indicators and our engagement activities.



FUND IMPACT INDICATORS	Main related SDG(s)	Candriam Conviction topics and/or Direct Dialogues	Related Direct Engagement	Related Collaborative Engagement Supported by Candriam (examples)
<p><b>Carbon Emissions</b> Carbon emission (or Footprint) in tons CO<sub>2</sub>e <b>per million</b> invested, Carbon intensity in tons of CO<sub>2</sub>e per million of revenue, WACI (Weighted Average Carbon Intensity) in tons of CO<sub>2</sub>e per million of revenue</p>	 	<p>Energy Transition</p> 	<ul style="list-style-type: none"> <li>• Just Transition dialogue campaign</li> <li>• Direct company-specific dialogue</li> <li>• Support to relevant Climate shareholder resolutions</li> <li>• Sanction vote against management</li> </ul>	<ul style="list-style-type: none"> <li>• Climate Action 100+, CA100+ related - Paris-aligned accounting and audit</li> <li>• CDP Climate</li> <li>• Share-Action led - Decarbonisation initiative, &amp; Banking on Low Carbon Future</li> <li>• Global Investor Statement to Governments on Climate Change</li> <li>• AGM Resolution co-filing</li> </ul>
<p><b>Water consumption</b> Water consumption (or Footprint) in m<sup>3</sup> of water <b>per million</b> invested, Water intensity in m<sup>3</sup> water per million of revenue</p>			<ul style="list-style-type: none"> <li>• Direct company-specific dialogue</li> <li>• Support to relevant water-related shareholder resolutions</li> </ul>	<ul style="list-style-type: none"> <li>• PRI-led Water Risks in Agriculture Supply</li> <li>• CDP Water</li> <li>• Sustainable Protein</li> <li>• Initiative for Pesticide-Use Reduction and Safer Chemicals Management - Grocery Retail</li> </ul>
<p><b>Waste Generation</b> Waste generation in tons of Waste <b>per million</b> invested</p>	 		<ul style="list-style-type: none"> <li>• Direct company-specific dialogue</li> <li>• Support to relevant waste-related (incl. circular) shareholder resolutions</li> </ul>	<ul style="list-style-type: none"> <li>• Plastic Solutions Investor Alliance</li> <li>• Investor Mining and Tailings Safety Initiative</li> </ul>
<p><b>Corporate Governance</b> Percentage of women on company board Percentage of independent board members</p>	 		<ul style="list-style-type: none"> <li>• Pre-/Post-AGM dialogues</li> <li>• Vote Against Directors and/or Chairman at AGMs</li> </ul>	<ul style="list-style-type: none"> <li>• Investor Statement to support the UN Women's Empowerment Principles and achieve Gender Equality</li> </ul>
<p><b>Employees</b> Employee fatality rate score from 0 to 100 Collective bargaining agreements score from 0 to 100</p>		<p>Fair Work Conditions</p> 	<ul style="list-style-type: none"> <li>• Direct company-specific dialogue</li> <li>• Dialogue campaign on working conditions at ICT supply chain level</li> <li>• Support to shareholder resolutions demanding improved disclosure on social issues</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce Disclosure Initiative</li> <li>• Share-Action-led Work Coalition (UK Living Wage Campaign)</li> <li>• PRI - Labour practices in agricultural supply chain</li> <li>• Bangladesh Investor Initiative</li> </ul>
<p><b>Business Ethics</b> Bribery &amp; corruption policy score from 0 to 100 Money laundering policy score from 0 to 100</p>		<p>Business Ethics</p> 	<ul style="list-style-type: none"> <li>• Direct company-specific dialogue</li> <li>• Support to shareholder resolutions demanding improved disclosure on lobbying and/or donations and/or tax matters</li> </ul>	<ul style="list-style-type: none"> <li>• Investor Statement to EU Policymakers on the future of Corporate Reporting</li> <li>• PRI-led Engagement on Corporate Tax Responsibility</li> </ul>

## G. Engaging through industry bodies

Candriam is actively involved in many associations that promote the integration of sustainable development within the investment industry:

- National & international Asset Management Industry associations, through RI-dedicated working groups
- National & international Sustainable Investment Forums
- Sustainable development information and education centres.

If advocacy positions taken by industry associations we adhere to are not aligned either with our own position or when appropriate, Candriam makes its position public.

Candriam also regularly responds to consultations from regulatory or industry bodies, not only through associations but also often simultaneously in its own name, to gain leverage and/or highlight specificities.

In addition to these, and besides press interviews, Candriam shares its ESG expertise as a regular speaker at key ESG conferences in Europe and abroad organized by public and private bodies.

More information on these matters is available in our publicly available Annual Engagement review.

## H. Traceability and Records

All **engagements** carried out by the ESG Research & Investment team through individual or collaborative dialogue with issuers are systematically recorded in a tool provided for this purpose, where all the information on dialogue activity is stored: contact, period of contact, topic and associated target of engagement (including the related impact from an SDG perspective), level of achievement, current status of engagement, impact on Candriam process/analysis and issuer eligibility.

In line with existing operational procedures, validation steps (dialogue continuation/closure, escalation measures, ...) are also recorded.

The engagement module integrated into our ESG proprietary database is built to enable immediate access to the engagement history (individual & collaborative dialogue, voting) for every issuer covered. Gathering ESG Research information and ESG-related dialogue inputs in one place supports more complete ESG analysis models and works towards improving ESG integration.

For engagements initiated by mainstream portfolio managers and analysts, asset- or strategy-based integration committees progressively help us, in the context of ESG integration, to improve the flow of information between teams. Exchanges that were previously mostly informal are being structured and related information is integrated into the ESG proprietary database when relevant.

# I. Compliance matters

## Identification & Management of Conflicts of interest (COI)

Like all other Candriam activities, engagement activities fall under the scope of the Candriam *Conflict of Interest Policy*, publicly available, and we thus fully refer to its principles.

Below are listed specific risks to our activities as well as measures in place to prevent them.

### - Voting-Specific -

Please refer to the dedicated chapter of our Voting policy.<sup>4</sup>

### - Dialogue-Specific -

The main risk here is (a) engaging with companies to induce a private benefit disconnected from Candriam's initial engagement purpose or (b) that expected or existing commercial relationships with the engaged company will lead to biased and, in some cases, erroneous, conclusions.

Procedures are in place to identify and manage potential conflicts of interest within all Candriam activities. Should a conflict of interest arise regarding a vote, the Head of Compliance is to be immediately notified. The best approach will be determined in full cooperation with the Compliance Department.

To manage and prevent such a risk occurring, and in addition to the regular monitoring of our Compliance department, several measures have been undertaken:

- ESG experts are required to report on every dialogue they initiate.
- Engagement outcomes are discussed and reviewed regularly by the ESG Research & Investment teams and portfolio managers' representatives.
- We report annually and in detail on our engagement activities.

## Insider Information

The main risk here occurs when we gain access and use improper disclosure whenever a company insider discloses inside information to Candriam during an engagement process. Insider information includes intimate knowledge or material non-public (privileged) information on the affairs, operations or financial position of a corporation that will affect the market price of the companies in question.

To manage and prevent such a risk occurring, and based on the *Candriam Material Non-public Information Policy*, any persons involved in engagement and discussions with companies are trained to identify insider information. When a staff member has any reason to believe that the information is material and non-public, or if they have questions as to whether the information may be material and non-public, they must report the case to the Chief Compliance Officer, who will review the issue and decide on any further measures. Meanwhile, the staff member will refrain from discussing the information internally or externally.

<sup>4</sup> Available under <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>



A specific disclaimer is added to documents sent to issuers at the dialogue-initiation stage, and onwards, if needed.<sup>5</sup> The same, ahead of conference calls or meetings, when needed.

## **Communication of Engagement impact with a given issuer**

ESG Research & Investment team members may send feedback to companies they have engaged with, highlighting the identified strengths and weaknesses, as well as Candriam expectations in the short/mid-/long term. Best practices can also be shared when publicly disclosed by interested parties.

Such feedback is, however, not systematized, and may occur at the demand of the issuer itself. The ESG eligibility status of the issuer can also be provided to that issuer upon request, as well as more details on the way we assess their strategy and performance, including their positioning vs sector peers, all free of charge.

## **Public disclosure of information gathered through engagement**

### **- Collaborative initiatives -**

For the vast majority of the collaborative initiatives we sign, the related terms of reference specify the rules of confidentiality. Most commonly, we are allowed to disclose the names of issuers for which we are lead investor.

Any participating investor is free to provide information to the other participating investors on the engagement activities undertaken within the collaboration. Any information disseminated must be in the investor's own words.

Targeted issuers are informed that the outcome of discussions will be shared amongst participating investors.

In cases where the initiative communicates outcomes of engagement, these remain general, outlining positive case studies, tools or lessons learned for signatories seeking to engage on the topic in the future. Content details of exchanges are not publicly disclosed (outside the participating investors) without the prior consent of the issuer in question.

### **- Direct dialogue -**

At the dialogue-initiation stage, the issuer is informed their answers will feed Candriam's internal analysis and that Candriam will communicate on engagement outcomes with its institutional clients, unless the issuer asks us not to. In any event, their answers won't be publicly released without their prior consent. Equally, the issuer's name will appear in Candriam's annual engagement report as one of the corporates contacted during the year, unless the issuer wishes to remain anonymous. Details of engagement are not made public.

Where recordings of group discussions are made, Candriam representatives will state at the start of the call that the call is being recorded for note-taking purposes.

### **- Exchanging information with other investors / asset managers**

In the framework of a collaborative engagement, or within specific working groups that are part of industry bodies, we may exchange with other investors and asset managers.

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<sup>5</sup> Disclaimer: *As an investor, Candriam does not wish to become an insider. While we consider the issues we are discussing to be material to the long-term performance of the company, unless otherwise specified, we assume that no "material non-public information" will be disclosed to us.*



Exchanges should focus on furthering the goals and objectives of our collaboration, and information gathered should not be used for any other purposes beyond the objectives of the initiative or working group.

In addition, we won't share the opinion and forecasts of our ESG and fundamental analysts / fund managers on this investee company.

In the same way, we won't disclose the size of our equity or credit position in a specific issuer to other investors. One exception, however: when we co-file a shareholder resolution with other investors, we may share with them the level of our holdings in order to check whether the necessary threshold for the filing has been reached.

### - Acting in Concert

Here, we more specifically refer to the implications of Directive 2004/25/EC on Takeover Bids on our engagement activities and how we prevent Candriam being considered as acting in concert with other investors.

The above Directive defines "persons acting in concert" as follows:

"Natural or legal persons who cooperate with the offeror or the offeree company on the basis of an agreement, either express or tacit, either oral or written, aimed either at acquiring control of the offeree company or of frustrating the successful outcome of a bid."

In a dedicated 2012 report<sup>6</sup> the European Commission suggested a clarification of this concept of "acting in concert" at EU level to enable investors to cooperate for the purpose of exercising good corporate governance but without seeking to acquire or exercise control<sup>5</sup> over the companies in which they have invested.

As defined by the *European Securities and Markets Authority* (ESMA) in its 2014 Public Statement<sup>7</sup>, cooperation might consist of discussing together issues that could be raised with the board<sup>6</sup>, making representations to the board on those issues, or tabling or voting together on a particular resolution. The issues on which shareholders might cooperate could include: commercial matters (such as particular acquisitions or disposals, dividend policy, or financial structuring); matters relating to management of the company (such as board composition or directors' remuneration); or matters relating to corporate social responsibility (such as environmental policy or compliance with recognised standards or codes of conduct).

In that respect, a "White List" of certain activities in which shareholders might wish to engage for the purposes of exercising good corporate governance (but without seeking to acquire or exercise control over the company) has been defined by ESMA.

We systematically refer to this White List of activities for our engagement activities, to ensure involved cooperation will not, in and of itself, lead to a conclusion that we are acting in concert.

<sup>6</sup> COM(2012)347, <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0347:FIN:EN:PDF>

<sup>7</sup> ESMA/2014/677-REV, [https://www.esma.europa.eu/sites/default/files/library/esma2014-677-rev\\_public\\_statement\\_concerning\\_shareholder\\_cooperation\\_and\\_acting\\_in\\_concert.pdf](https://www.esma.europa.eu/sites/default/files/library/esma2014-677-rev_public_statement_concerning_shareholder_cooperation_and_acting_in_concert.pdf)





## J. Reporting

In compliance with the 6<sup>th</sup> PRI principle, we undertake to regularly report on our engagement activities and progress, both internally and externally.

### I. Internal Disclosure & Leverage

Candriam's Global Strategic Committee as well as its Executive Committee are both regularly informed of engagement activities and their related outcomes.

In addition to this, the ESG Research & Investment team ensures that communication channels exist internally to provide updates on new collaborative engagement initiatives and on engagement outcomes, when relevant to the investment teams.

Depending on the case, various channels may be used (not mutually self-exclusive):

- Sector-based committee reports, which mention the dialogues that occurred during the sector reviews
- ESG Monitoring Alerts and ESG Alerts
- ESG integration or Asset-specific committees made up of ESG & investment specialists
- Engagement and Proxy annual reviews published on the Candriam intranet
- Informal dialogue between the ESG Research & Investment team and the portfolio managers.

The idea is to report on existing engagements and to prompt parties in relationships with companies to improve the quality of exchange on ESG topics.

### II. External Disclosure & Leverage

Our main external communication occurs through our corporate website and press releases for our annual proxy and engagement reviews. Tweets are also sent over the course of the year on collaborative initiatives we take part in. Engagement case studies and research papers are also regularly published on our website.

Presentations made outside any contractual relationships we have with clients are also opportunities to share our experience and the outcomes of our engagement.

For Candriam open funds, the list of AGMs the fund participates in is published in the annual/semi-annual reports. Details of all votes cast based on Candriam policy can be found on the Candriam website.

Our voting scope and other information on our voting approach, including why Candriam may choose not to vote, are detailed in our voting policy and /or on our site and/or in the respective annual reports of our open funds.

In accordance with the specific terms of the contractual agreement between parties, Candriam clients benefit from regular updates on their portfolio and related analysis viewed through the prism of engagement.

In particular, they receive dedicated reports with:

- Details of any new collaborative engagement initiatives Candriam has signed, with an invitation to join;
- Updates and outcomes of signed collaborative initiatives;
- The set of engagement priorities identified for their portfolio (if customized to their own specific interests), with related goals of engagement;





- List of individual engagement over the period of review in question, with their status (prepared/initiated/ongoing/closed), related outcomes on their portfolio and impact on issuer eligibility.

When relevant, they also receive:

- The detail of the votes (proxy voting) for their portfolio with the associated rationale for decisions on management and shareholder resolutions;
- Our annual proxy and engagement reviews.

Any meetings we have with clients are also considered an opportunity to receive feedback on our engagement strategy and reporting, and Candriam encourages any feedback to improve its approach.

## About Candriam

Candriam is a European multi-specialist asset manager with a 20-year track record. Candriam manages around EUR 128 billion of assets under management<sup>8</sup> as of the end of June 2020 with a team of more than 500 professionals. It operates management offices in Luxembourg, Brussels, Paris, and London, and has client representatives in more than 20 countries throughout continental Europe, the United Kingdom, the United States and the Middle East. Candriam offers investment solutions in several key areas: bonds, equities, absolute performance strategies, and asset allocation. Candriam is also a pioneer and leader in sustainable investments with, since 1996, a broad and innovative range covering all its asset classes.

Candriam is a New York Life Company. New York Life Investments<sup>9</sup> ranks among the world's largest asset managers<sup>10</sup>.

Candriam stands for “Conviction And Responsibility in Asset Management”: conviction-based investment decisions and a sense of responsibility to our clients influence everything we do. Our Sustainable & Responsible Investing (SRI) research team is one of the largest in continental Europe, enabling us to provide a broad range of SRI strategies across geographic regions and asset classes (equity, fixed income and asset allocation).

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<sup>8</sup> As of 30 June 2020. Assets under management (AUM) include assets which do not fall within the U.S. Securities and Exchange Commission's definition of 'regulatory AUM' in Form ADV, Part 1A.

<sup>9</sup> New York Life Investments is a service mark used by New York Life Investment Management Holdings LLC and its subsidiary New York Life Investment Management LLC. New York Life Investment Management LLC is a wholly-owned indirect subsidiary of New York Life Insurance Company

<sup>10</sup> Source: New York Life Investments ranked 30th among the world's largest money managers within *Pensions & Investments*, May 28, 2018. Rankings are based on total worldwide institutional assets under management for the year-end 2017. New York Life Investments assets include assets of affiliated investment advisors.





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