



Candriam's Climate Policy

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Climate change is one of the most urgent and important challenges that society and investors are facing today. It is also a source of opportunity for investors through the reallocation of capital and innovation that our responses to climate change are creating and will undoubtedly stimulate. As an asset manager, Candriam's responsibility is to preserve and develop the assets of its investors. Candriam therefore integrates climate change at every level of analysis and investment decision making as well as in the exercise of its role as an active and responsible investor.

The financial sector is one of the main allocators of capital in the real economy. The investment decisions taken by asset managers have a direct or indirect influence on the cost of financing for companies, their ability to develop certain projects rather than others, and their strategic choices. Moreover, these investment decisions are coupled with an ability to influence companies, among other things through the exercise of voting rights held as a shareholder in those companies. This capacity to influence also entails a responsibility to exercise it in the interests of our investors, while taking into account the impact of our decisions on society at large.

Candriam's consideration of climate change is part of the broader framework of Greenhouse Gas reduction objectives necessary if the average global temperature is not to exceed two degrees Celsius above pre-industrial levels. This objective is at the heart of the Paris Agreement signed in 2016 and ratified by all States of the European Union. The approach implemented by Candriam affects the way Candriam operates its business (CSR), its investment decisions (ESG), as well as the active dialogue conducted by Candriam with companies contributing significantly to climate change through their activities (Active Ownership).

Governance of climate related risks and opportunities

Candriam's Group Strategic Committee (hereafter « GSC ») is the company's primary body to steer Candriam's strategy. The GSC is the company's ultimate decision body for all matters relating to Candriam's investment and corporate business activities.

Candriam's GSC regularly reviews the company's exposure to climate change risks and opportunities. It can choose to seize itself of a particular climate related subject, or it will review climate related proposals arising from Candriam's business lines. In undertaking its review of climate related risks and opportunities, the members of the GSC can request the support of relevant people within the organization, such as risk managers, ESG analysts, or sector specialists. A team of dedicated ESG analysts, reporting directly into the organization's Chief Investment Officer, is responsible for providing research and market intelligence on climate change impact on Candriam's business activities.

Assessing climate related opportunities can translate into new product proposals, amendments of existing management processes, or review of company policies. It is the role of the GSC to review such

proposals and, in light of Candriam’s positioning, resources, and assessment of financial impact, to give its approval for the proposal to be implemented.

The numerous investment portfolio held by Candriam expose the company to significant climate-related risk through the risks faced by the companies held in these portfolio. The GSC reviews Candriam’s exposure to climate related risks arising from these holdings (Scope 3 GHG emissions), as well as arising from the company’s own operations (Scope 1 and 2 GHG emissions). Front office and control business lines seek to minimize and mitigate Candriam’s exposure to climate related risks. Front Office functions include all fund management activities. Candriam has taken steps to mitigate climate related risk exposure at Front Office level, by for instance, excluding the most carbon intensive power generation activity, based on thermal coal, from all portfolio managed by Candriam. Control business lines are in charge with Candriam’s risk management, legal, procurement, and compliance functions. They regularly report to the GSC on Candriam’s exposure to climate related risks and make proposal aimed at lowering that risk.

Candriam strategy towards climate change related risks and opportunities

Defining Candriam’s Climate Strategy is the joined responsibility of the Group Strategic Committee and the company’s Executive Committee. The strategy is then implemented by the company’s Executive Committee and the different business lines. In defining Candriam’s Climate Strategy the organization takes into account the short-, medium- and long-term impacts of the company’s activities and its exposure to climate risk over the different time horizons.

Candriam’s Climate Strategy is articulated around the core functions and activities of the organization: investment management products and services, corporate stewardship & active ownership, the company’s own operations.

In defining the organization’s strategy towards climate change, the company seeks to align itself with the objective laid out in the Paris Agreement to keep global average temperature from rising more than 2 degree Celsius above pre-industrial levels. In defining the optimal approach to translate this objective into an actionable strategy, Candriam integrates the recommendations from the latest industry initiatives, in particular:

- The Science Based Targets initiative
- The recommendations defined by the Taskforce on Climate Related Financial Disclosures
- CDP
- UN Global Compact

Investment management products and services

Candriam integrates climate change within the definition of its product range, the assessment of new product opportunities, the periodic review of investment product performance, the benchmarking of

our investment strategies, the research & development decisions affecting Candriam's competitive positioning and ability to provide its clients with innovative investment solutions in the face of climate risks & opportunities. Since January 1st 2019, Candriam has implemented across all directly managed investment portfolios an exclusion policy targeting thermal coal extraction and power generation, with a 10% revenue threshold. Furthermore reduction of Candriam's exposure to the most Greenhouse Gases intensive corporate activities is part of Candriam's strategy to address Climate Change.

Specifically short-term impact from climate change is assessed through the ongoing monitoring of investee companies' response to climate change and their exposure to physical risks arising from climate change. Medium- to long-term exposure of investee companies to climate change transition as well as physical risks are captured through Candriam's proprietary methodology evaluating the alignment of business activities to climate change. Candriam also conducts regular research on the exposure of different sectors to climate change risks and opportunities. This research can contribute to define the organization's strategy towards new products and help us assess the different investment opportunities in light of climate change.

Corporate stewardship and active ownership

As a shareholder in a large number of companies with a long-term commitment to foster alignment with the Paris Agreement objective, Candriam has been actively engaging with companies on their approach to climate change. The organization's climate strategy can leverage on the access to corporate managements to seek influence on climate related decisions. Climate change is captured in Candriam's Engagement Policy as one of the three key focus areas of our corporate stewardship practice. This strategy then translates at the operational level into individual engagement initiatives we initiate with individual companies, as well as our membership and active involvement in a number of collective engagement initiatives.

Company's own operations

The organization seeks to reduce or compensate the impact on climate change arising from its own operations, the so-called Scope 1 & 2 emissions, as well as as Scope 3 emissions emitted by suppliers (so-called upstream Scope 3 emissions). The Executive Committee is in charge of the regular review of the company's operations and will seek to make recommendations to the Group Strategic Committee aimed at improving Candriam's own carbon efficiency. In doing so, the Executive Committee, supported by Candriam's business lines, will review industry best-practices, opportunities arising from technological change, and Candriam's evolving geographic footprint.

In 2019 Candriam announced that it would achieve carbon neutrality on its Scope 1 & 2 Greenhouse Gases emissions perimeter. In doing so, Candriam becomes one of the few global companies where Scope 1 & 2 emissions (and upstream Scope 3 emissions) get compensated through investments in concrete projects leading to GHG removal or lower emissions.

Besides neutralizing Scope 1, 2, and upstream 3 emissions, Candriam seeks to constantly optimize its operations in order to reduce GHG emissions from office heating and ventilation, paper consumption, business travel and other aspects of its day-to-day operations.

Risk management

A company's activities can be exposed to two forms of climate change related risks: transition risk and physical risk. For an asset management company like Candriam these two types of risks can be assessed at company level, and within investment portfolio.

Regarding Candriam's own operations, exposure to transition risk translates into stricter regulation around the impact of the organization's activities on climate change. Anticipating and responding to these risks falls under the remit of the CSR Committee, supported by Candriam's ESG analysts. Physical risk on the other hand can translate into disruptions to Candriam's operation due to the impact of physical or meteorological events made more likely by climate change. Candriam has put contingency plans in place, contained within the company's Business Continuity Procedures, to ensure that physical risk related events do not prevent the company from operating.

The bulk of Candriam's risk exposure to climate change arises from the capital the organization allocates, as part of its day-to-day operations, to various companies and sovereign states globally. Each company whose securities Candriam holds can run a more or less severe risk of material financial impact caused by its exposure to climate change related transition and physical risks. It is the role of Candriam's ESG Investment & Research Team, Risk Management Team, and Portfolio Management Teams, to identify those risks, assess the likelihood of them materializing, their potential financial impact on the underlying securities. The Sustainability Risk Committee set up in 2020 and reporting directly to the GSC is specifically tasked with identifying, assessing, and monitoring climate change related (and other ESG) risks in order to take appropriate decision.

Metrics and targets

Candriam has defined specific indicators in order to assess the company's performance towards climate change mitigation and adaption, both at the operational level and at the investment level. These metrics are then translated into regular reporting the Candriam publishes through its Corporate Social Responsibility report or through periodic disclosures relating to investment fund performance.

At the company level, Candriam publishes annually its Scope 1, 2, and 3 upstream Greenhouse Gases emissions for the previous calendar year. The goal of the organization is to insure year-on-year reduction of carbon intensity from its operations, whilst accounting for fluctuations in underlying assets under management.

At the investment level, Candriam publishes the Scope 1 and 2 emissions for a number of investment funds as well as dedicated climate change related indicators for dedicated institutional mandates. Depending on the strategy, the following metrics are disclosed at the fund level:

- Weighted Average Carbon Intensity
- Carbon Footprint
- Carbon Intensity
- Exposure to Carbon-Related Assets in the power generation sector

Candriam has set itself as target to achieve a significant level of reduction in Greenhouse Gases emissions across its Candriam SRI SICAV investment vehicles. The company is also strongly advocating climate change related solutions to clients through low carbon investment strategies, fossil free strategies, and quantitative approaches aimed at delivering comparable performance at a lower carbon intensity than regular market indices. Beyond the measurement of Greenhouse Gases emissions, Candriam also provides data on related indicators, such as the energy mix of power generation companies held in portfolio.