



Sustainability Risk Management Policy

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Sustainability is rooted in Candriam's operating model and forms a key part of its corporate culture. As part of our conviction and of our fiduciary duty to our clients, Candriam's sustainable development strategy leads it to incorporate the overall sustainability trends that will shape the world of tomorrow into our strategic operational and investment choices.

As sustainable economic development is one of the key cornerstones of its corporate strategy, Candriam has developed a policy for identifying, monitoring and managing sustainability risks across the full scope of the assets it manages on behalf of its clients. The identification and management of these sustainability risks concern not only investment analysis, risk and portfolio management but also Candriam's own corporate operations.

"Sustainability risks" refer to any Environmental, Social or Governance event that could affect the performance and/or reputation of an issuer in any of the portfolios managed by Candriam and/or of Candriam as a corporate entity.

Sustainability risks can be subdivided into 3 categories:

- Environmental: environmental events may create physical risks for companies. These events could, for example, result from the consequences of climate change, the loss of biodiversity or changing ocean chemistry. In addition to physical risks, companies could also be negatively impacted by the mitigation measures adopted to address environmental risks and which will impact companies differently depending on the latter's exposure to the above risks and their adaptation to these.
- Social: refers to risk factors related to the human capital supply chain and how businesses manage the impact of these factors on society. Issues relating to gender equality, compensation policies, health & safety and risks associated with working conditions impact the social dimension. The risks of violating human rights or labour rights within the chain of supply are also part of the social risk.
- Governance: these aspects are linked to the governance structure and include board-independence management, relationships with the employees, compensation, and compliance or tax practices. Governance risks originate from a failure to monitor the company and/or the lack of incentive for the company management to uphold high standards of governance.

A. Portfolio Sustainability Risk

I- Identification, Management and Monitoring of Sustainability Risks

The integration of ESG issues into investment practice and decision-making is an increasingly standard part of the regulatory and legal requirements for institutional and retail investors, along with requirements to consider the sustainability-related preferences of their clients and beneficiaries, and to report on how these obligations have been implemented.

The European regulation defines sustainability risk as an environmental, social or governance event or condition that, if it occurs, could have an actual or a potential material negative impact on the value of the investment.

As a sustainable asset manager, Candriam recognizes the importance of taking into account sustainability risks in the portfolios it manages.

a. ESG Assessment & ESG Investment Selection

We apply a holistic top-down approach requiring an overall assessment of all the aspects of a business, sector or country's exposure to material ESG issues. Candriam considers that an issuer's long-term value or financial risks are not solely influenced by financial criteria such as operating margin income or growth. By incorporating environmental, social & governance (ESG) criteria, we identify other factors that may influence a company's value and competitiveness over the medium and long term, factors which are not always immediately obvious in traditional financial analysis.

For more than 20 years now, Candriam has developed expertise in ESG analysis through its dedicated ESG team, which comprises analysts specializing in specific sectors, sovereign analysis and active engagement activities. The team has developed its own ESG analysis methodology which it applies to governments, corporations and supranational agencies/organizations.

The ESG analysts use internal and external research to feed their models. The team strives to retrieve information from diverse sources, as we consider information from different providers to be complementary. This is necessary because of providers' varying coverage, methodologies and culture, which may ultimately lead to discrepancies in views and final ratings. These different assessments provide our ESG analysts a more holistic view of a company. This team is tasked with providing Issuers ESG assessment and delivering selection options for fund managers.

For additional information on the ESG process, please refer to the Transparency Codes or the Candriam Integration Policy published on our website:

<https://www.candriam.com/4941c6/siteassets/medias/publications/sri-publications---candriam-policies/candriams-integration-policy.pdf>

<https://www.candriam.com/en/professional/market-insights/sri-publications/#transparency>

You can also find the Candriam Climate Policy there:

<https://www.candriam.com/4941db/siteassets/medias/publications/sri-publications---candriam-policies/candriams-climate-policy.pdf>

When an ESG weakness on an issuer is detected, the ESG team proposes adequate action to the **Sustainability Risk Committee** for implementation (Engage & initiate dialogue, Divestment, Exclusion,).

This committee, led by the **Chief Investment Officer, the Chief Risk Officer and the Global Head of ESG**, is held every two months. Ad hoc committees can be organized when needed.

Exclusion:

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

- funds for which Candriam is the management company but for which it has delegated the investment management activity to another entity;
- funds for which Candriam is not the management company but for which it has received the investment management activity through delegation by another entity;
- funds of funds managed by Candriam where the underlying funds are not managed by Candriam.

For third-party discretionary portfolio mandates, company-wide exclusions are applied if parties so agree. For additional information, please refer to the company-wide exclusion policy published on our website:

<https://www.candriam.com/siteassets/medias/publications/sri-publications---candriam-policies/exclusion-policy.pdf>

Policy updates are proposed by the ESG team and validated by the Sustainability Risk Committee. Risk Management monitors the policy via the Charles River constraint server.

Investment universe rules:

Candriam has also implemented a policy regarding the selection of issuers and instruments used within portfolios: the ESG Investment Policy. This policy focuses on ESG rules that fund managers must comply with, in line with the ESG characteristics of the products they manage. The policy is monitored by Risk Management via the Charles River constraint server. Any breaches of policy rules are reported to the Portfolio Risk Compliance Committee. Policy modifications are validated by the Sustainability Risk Committee.

b. Engagement

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

Our engagement activities have 3 main objectives that are directly linked to our ESG selection:

- encourage improved ESG disclosure;
- support investment decisions;
- influence corporate practices on ESG issues.

In particular, engagement activities related to the investment decision process occur:

- within our ESG analysis framework, when Candriam wants to inform issuers of the final opinion it has opted for, and the main elements underpinning its 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 our Candriam Engagement Policy, you can find additional information on engagement at Candriam:

https://www.candriam.com/4b0e56/siteassets/medias/publications/brochure/corporate-brochures-and-reports/engagement-policy/candriam_engagement_policy.pdf

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 in favour of best practices in the field.

Candriam's Proxy Voting policy favours resolutions that support sustainable development principles in accordance with its sustainable and responsible approach.

Proxy voting activities fall under the ultimate responsibility of the Candriam Group Strategic Committee as part of our investment process. The Candriam Proxy Voting Committee is the 'guardian' of our Voting Policy and responsible for its implementation. This Committee, dedicated to the responsible exercise of voting rights by Candriam, has a three-fold mission:

- define the general policy for the exercise of Candriam's voting rights and for the evolution of the policy;
- review voting proposals made by ESG analysts and assess the effectiveness of votes cast at shareholder meetings;
- ensure that the Candriam voting policy is properly implemented into operating procedures.

The Committee consists of internal representatives from the Management, Operations, Risk and ESG Research & Stewardship teams. Representatives of the Legal department may attend meetings upon request.

The Committee meets regularly during the AGM season.

For additional information, please find the Candriam Proxy Voting Policy as published on our website:

<https://www.candriam.com/siteassets/medias/publications/sri-publications---candriam-policies/proxy-voting-policy.pdf>

c. ESG indicators and Principal Adverse Impacts

For all funds and mandates with an ESG approach (articles 8 or 9), Candriam defines the ESG indicators to follow.

These can be indicators developed by Candriam or provided by external providers. Principal Adverse Impacts (PAI) are indicators defined by the SFDR regulation.

These indicators are specific to each process and can be associated with a hard or a soft limit.

The indicators and associated limits are defined by the Risk Management department and validated by the Sustainability Risk Committee.

ESG indicators and PAIs are monitored by Market Risk Management and integrated into risk reports. Limits on the indicators can be either hard or soft. Breaches are handled via the Candriam Breach Resolution and Escalation Policy, and reported to the Sustainability Risk Committee.

d. Other Sustainability Risks

ESG data and ESG models are key elements of adequate Sustainability Risk management.

Candriam has a strong process in place for the selection of ESG data providers. The ESG Investment & Research team performs due diligence on such providers and, once the choice is made, Purchasing takes over the contractual negotiations.

Controls on ESG data integration are implemented to ensure that the ESG data in our information system are consistent. The Candriam data team defines and implements data controls.

Risk Management Modelling validates the PAI indicator calculation methodology as well as the process underlying ESG issuer-scoring.

II- Define Candriam ESG product strategy and ESG characteristics

The second step of Candriam's approach towards addressing the sustainability risks and impacts of the products it manages is the definition of the **ESG characteristics for Candriam products**.

The Client Solutions Committee is the committee in charge of the development, analysis and approval of new ideas and products or specific client requests for new investment techniques or processes. Each new product or adapted product positioning is validated by the Client Solutions Committee before launch or implementation.

Taking into account Candriam's sustainability positioning and sustainable investments expertise, the ESG characteristics for new or repositioned products are included in the presentation and discussed and validated during the committee: global exclusions, normative exclusions, Best In Class/Best in Universe and/or thematic approaches, impact objectives, etc.

The Client Solutions Committee is chaired by the Investment Solutions team and comprises representatives of different departments: Investment Management, Risk Management, Sales, Legal and Product Management.

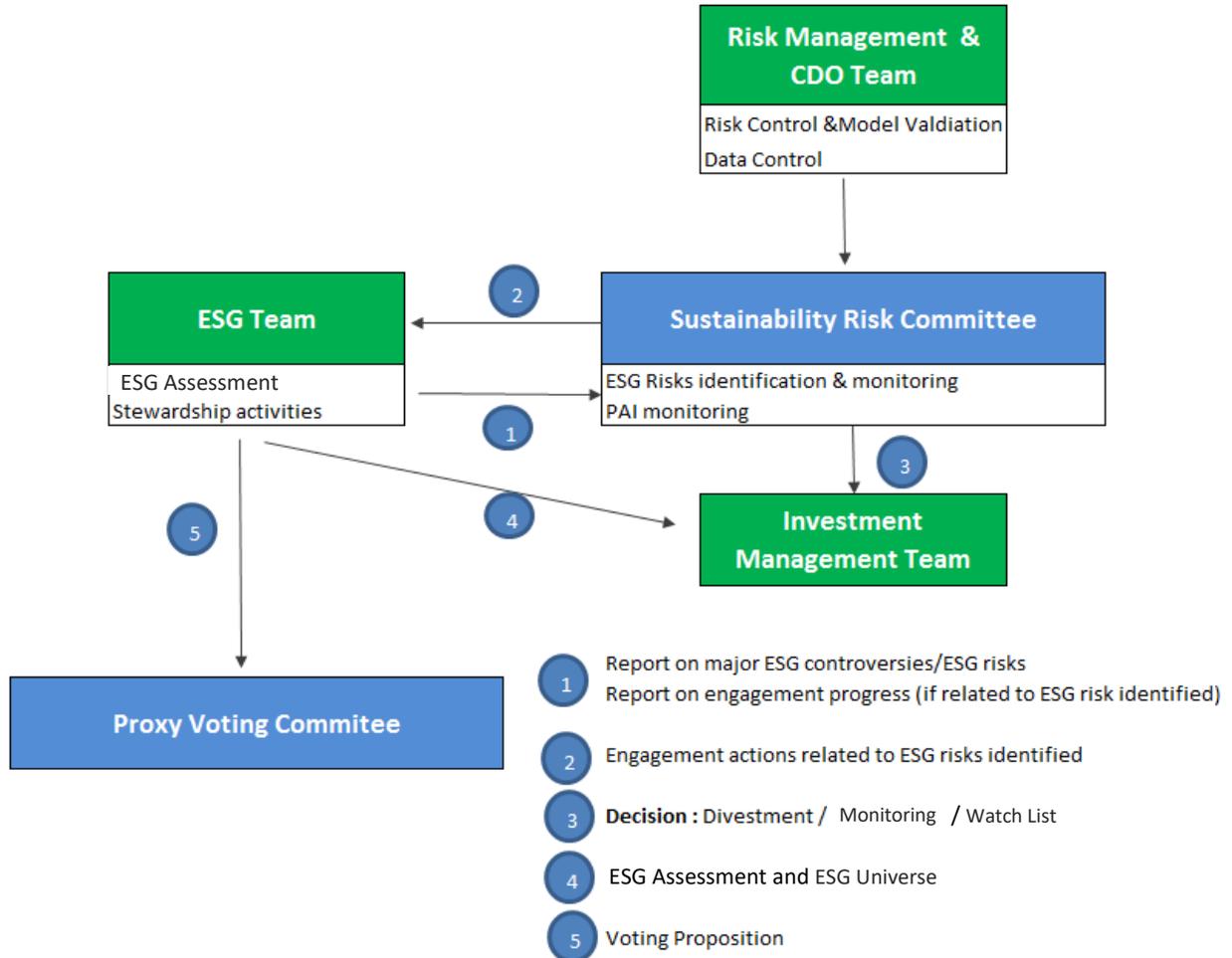
For mandates, ESG characteristics are discussed with the clients.

Depending on the final ESG characteristics of the products, Candriam manages Sustainability Risk mainly via three approaches:

- **ESG Assessment & ESG Investment Selection, including Exclusion;**
- **Engagement with investee companies;**
- **Follow-up of ESG indicators and Principal Adverse Impact indicators.**

III- Sustainability Risk Committee & Applicable Policies

Sustainability Risk Committee & Applicable Policies



B. Corporate Sustainability Risk

Candriam integrates the consideration of sustainability risks and opportunities into its strategic roadmap. The Candriam Group Strategic Committee holds a dedicated ESG & CSR session (at least) once a year.

Business Ethics

A fundamental Candriam commitment to its clients and society is to conduct its business ethically and with integrity. This is enshrined in a series of ethical codes and codes of conduct for staff.

Procedures are in place regarding anti-fraud, anti-money laundering and terrorism financing, the KYC (Know Your Customer) process, whistleblowing, the detection and management of conflicts of interest, prevention of market abuse and the monitoring of personal transactions.

Staff follow regular compliance training.

Staff members' yearly assessment includes the consideration of their compliance with procedures and of sustainable behaviour aligned with Candriam's values.

Candriam's Compliance department is independent and performs second-line controls on these topics.

CSR Commitments

Candriam has a dedicated committee to steer Candriam's CSR roadmap. The CSR committee is composed of Candriam stakeholders from different business units and is chaired by Candriam's Head of Corporate Sustainability. The CSR committee addresses sustainability matters in 5 domains:

- Staff – objectives and policies are in place regarding diversity & inclusion and staff well-being. Candriam has formal and informal platforms for dialogue with staff.
- Clients – Candriam has a Client Charter, with focus on sustainable client relations.
- Operational value chain – objectives and policies are in place designed to reduce Candriam's environmental footprint (responsible travel policy, car policy, building charter, best practices waste management). Candriam measures and offsets its remaining carbon emissions.
 - For suppliers, an ESG questionnaire is part of the new vendor RFPs managed by the Purchasing department. The questionnaire considers criteria such as:
 - Environmental : GHG (measuring, reducing, offsetting), use of resources, managing & reducing waste;
 - Social: human rights, labour management, diversity & inclusion, health & safety, sustainable supply chain labour standards, product safety, data security;
 - Governance: independent board members, diversity, policies preventing corruption.
- Governance – Candriam is committed to having a well-balanced composition of its decisional bodies and boards and has put in place a responsible remuneration policy.
- Community – Candriam gives back to the community and promotes a sustainable & inclusive society by supporting initiatives in education & research and projects with a social or societal impact. The Candriam Institute for Sustainable Development monitors the donation process, including the validation of supported initiatives.

For more details on the environmental aspects of this domain, please consult the Candriam Climate Policy on our website.

<https://www.candriam.com/4941db/siteassets/medias/publications/sri-publications---candriam-policies/candriams-climate-policy.pdf>

For additional information on corporate sustainability risk, please consult the Corporate Sustainability Report on our website: <https://csr.candriam.com/>

C. Governance

Different committees overview sustainability topics, including sustainability risk and sustainability development:

- A **Strategic Sustainability Committee** meets regularly: the Group Strategic Committee (GSC), supported by Candriam’s ESG and CSR experts, sets out the strategic orientations for ESG investing (both from a product and a commercial standpoint) and Corporate Sustainability Risk.
- A company-wide **Sustainability Risk Committee**, reporting on GSC, assesses corporate reputational & financial risks regarding sustainability, including climate risks, and defines a controversial Company and Country Watch List for all Candriam activities.
- The **Proxy Voting Committee** provides strategic guidance on proxy voting best practices and monitors Candriam’s voting policy.
- The **Candriam Institute** for Sustainable Development oversees Candriam’s philanthropy and community-impact programme, through the support of initiatives in ESG research & education and in the social impact domain.
- The **ESG Steering** coordinates the implementation of the strategic ESG roadmap, relying on several agile investments and on its operational and IT workstreams.
- The **CSR Steering** oversees and coordinates the implementation of the CSR roadmap across staff, clients, the operational value chain, governance and the community.

