CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

It's time for climate action

60 seconds with the portfolio manager

JUNE 2024

This marketing communication is intended for non-professional investors.

Tom Van Ginneken

Portfolio Manager

Tanguy Cornet

Head of Thematic Global Equity – Environment

Alix Chosson

Lead ESG Analyst

Tom Van Ginneken, Tanguy Cornet and Alix Chosson explain how an ESG (Environmental, Social & Governance) strategy investing in climate change can help combat global warming while incorporating a long-term performance target.

Why offer investors a strategy on climate change?

Human activity has been making our planet warmer since the mid-20th century. The scienti fic evidence supports this.

According to the IPCC report(1), greenhouse gas emissions continue to rise, leading to rapid global warming. Reducing these emissions immediately is crucial to limiting the global temperature rise to 1.5°C by the early 2030s.

Studies show the considerable impact of global warming on the ecosystem, the economy, society and, indeed, on all human activity. The number of meteorological disasters has increased five-fold in the past 50 years(2). Hurricane Otis, which hit Acapulco, Mexico in 2023, resulted in insurance claims exceeding $2 billion(3). And that's just one example!

According to the International Energy Agency, $3,000 billion of investment is needed each year in the energy transition – three times the current amount – to avoid exceeding the 2°C threshold. And companies are already offering solutions. Our conviction is that investing in these companies can generate long-term performance. Launching a strategy that combines our long-standing expertise in both ESG (Environmental, Social, and Governance) analysis and thematic equity management is therefore an obvious choice.

How do you generate your investment ideas?

Renewable energies, recycling, green buildings, are all obvious sources. But we also find investment possibilities among less obvious innova tive solutions such as virtualisation software, or enzymes capable of streamlining a manu facturer' production processes and improving its energy efficiency. There are many roads to energy transition and many possible solutions to environmental challenges. We look at two types of approach:

- *Mitigation: These types of solutions involve preventing GHG (Greenhouse Gases) emis sions. They include alternative energies such as solar; energy storage such as electric vehicle batteries, and energy efficiency such as insulation, which can help mitigate the causes of climate change and limit green house gas emissions.*
- *Adaptation: The second category is solutions to adapt to the negative consequences of climate change and pollution. Examples include floodwater management, and waste management or recycling.*

60 SECONDS WITH THE FUND MANAGER

(1) Report of the Intergovernmental Panel on Climate Change published in March 2023 : https://www.ecologie.gouv.fr/publication-du-6e-rapport-synthese-du-giec
(2) Source: World Meteorological Organization.
(3) Source : https://www.aon.com/en/insights/reports/climate-and-catastrophe-report

Our climate investments are supported by Candriam's own Climate Change Committee of four experts. They help identify companies which can profit from climate-change challenges through their products, services and technologies. This team can also rely on the expertise of our partner Carbone4Finance[4]. The decisive advantage of the Carbon4Finance method lies in an in-depth analysis of companies' Scope 3 for our internal ESG analysis.

In which sectors do you find companies acting to cure the climate?

The four economic sectors that emit most CO_2 obviously have to reduce their carbon foot print. Energy, industry, transport and construction are the sectors most affected.[5] Within these sectors, we shall target those companies that provide solutions to fight global warming, and those operating within these companies' ecosystem – such as providers of insulation for the construction industry. We seek companies of all sizes, from all sectors and geographical regions, and from a wide range of industries.

How do you choose companies?

We exclude companies that do not adhere to the 10 Principles of the United Nations Global Compact, as well as those whose activities are controversial such as arms, tobacco, thermal coal and other activities we consider to be unsustainable.

This process ultimately enables us to reduce the investment universe by 20% or more. Our fundamental analysis process is based on three pillars, each of which has strict criteria that the investee company must meet: Thema tic, Fundamental Financial, and Valuation.

We first use a double thematic filter to compile our "investable[6]" universe:

the companies are split into categories based on our two approaches: mitigation and adap tation. To this end, we have developed a proprietary tool that enables us to conduct a detailed analysis of each company's contribution to environmental issues (as a percentage of their turnover). We carry out extra-financial analysis in order to better understand the risks and opportunities associated with ESG criteria[7]. We also assess the extent to which a company's activities are exposed to major sustainability issues, and how it manages its relations with stakeholders. We then conduct an indepth analysis of each company within the investment universe based on five fundamental criteria combining financial and extra-financial analysis: quality of management, growth potential, competitive positioning, high profitability and low debt levels.

Finally, we value the equities selected, retaining those with the potential for longterm invest ment return.

What does this strategy mean for my investments?

In our opinion, investing in this strategy is obvious for a host of reasons.

For both today and for future generations, climate change is a global challenge. Global warming is forcing us to seek solutions to mitigate new GHG emissions, and adapt to the consequences of GHGs already in the atmos phere. As responsible investors, we all have a part to play in financing the transition to a lowcarbon economy and in helping companies that deliver solutions to combat the major environmental challenges. This is why we have developed an active, pure and forwardlooking strategy.

With these 3 criteria, our environmental strategy goes well beyond excluding large emitters of CO_2. We invest only in companies whose core activity offers a positive, tangible and direct impact in the fight against global warming. Within the investment reporting, we will inte grate this dimension and measure the impact on 2 specific indicators related to climate change: the quantity of CO_2 emissions avoided and the percentage of waste recycled.

This allows you to measure the positive results of your investments.

From a pure financial performance view, we believe this thematic represents an investment opportunity in new growth sectors. We believe companies able to rise to climate technology challenges and deliver practical solutions will, enjoy above average long term growth.

(4) Carbone 4 is the first independent consulting firm specializing in low-carbon strategy and adaptation to climate change.
(5) International Energy Agency report on CO2 emissions in 2023 (https://www.iea.org/reports/co2-emissions-in-2023)
(6) We only take into account sectors that are not excluded by the "Candriam Exclusion Policy". This document can be downloaded here: https://www.candriam.com/en/professional/insight-overview/publications/.
(7) The ESG analysis covers the entire strategy, excluding deposits, cash and index derivatives.

The integration of ESG factors into the finan cial analysis of companies, the commitment to a constructive dialogue[8] with companies to encourage best practices, and the exercise of our voting rights should be the norm for com mitted investors. ESG is more than just three letters. At Candriam, these three actions have been a reality in our daily investing life for more than 25 years, now and the new strategy is no exception to the rule!

(8) Please refer to our reference documents on our website for more details on our dialogue and voting policy.

The main risks of the strategy are:

• Risk of capital loss:

There is no guarantee for investors relating to the capital invested in the strategy in question, and investors may not receive back the full amount invested.

• Foreign exchange risk:

Foreign exchange risk derives from the strategy's direct investments and its investments in forward financial instruments, resulting in exposure to a currency other than its valuation currency. Changes in the exchange rate of this currency in relation to that of the strategy may negatively affect the value of assets in the portfolio.

• ESG Investment Risk:

The non-financial objectives presented in this document are based upon the realization of assumptions made by Candriam. These assumptions are made according to Candriam's ESG rating models, the implementation of which necessitates access to various quantitative as well as qualitative data, depending on the sector and the exact activities of a given company. The availability, the quality and the reliability of these data can vary, and therefore can affect Candriam's ESG ratings.

• Equity risk:

Some strategies may be exposed to equity market risk through direct investment (through transferable securities and/or derivative products). These investments, which generate long or short exposure, may entail a risk of substantial losses. A variation in the equity market in the reverse direction to the positions can lead to the risk of losses and may cause the performance to fall.

• Emerging market risk:

Market movements can be stronger and faster on these markets than on the developed markets, which could cause the performance to fall in the event of adverse movements in relation to the positions taken. Volatility may be caused by a global market risk or may be triggered by the vicissitudes of a single security. Sectoral concentration risks may also be prevalent on some emerging markets. These risks may also heighten the volatility. Emerging countries may experience serious political, social, legal and fiscal uncertainties or other events that could have a negative impact on the strategies investing in them. In addition, local depositary and sub-custodial services remain underdeveloped in non-OECD countries and emerging countries, and transactions carried out in these markets are subject to transaction risk and custody risk. In some cases, it may be impossible to recover all or part of the assets invested or delays in delivery when recovering assets may arise.

The risks listed are not exhaustive, and further details on risks are available in regulatory documents.