CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Investing for tangible change

60 seconds with the fund manager

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This marketing communication is intended for non-professional investors.

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Philippe Dehoux, Head of Global Bonds, Lead Portfolio Manager, and Lucia Meloni, Lead ESG Analyst, describe a fresh perspective on bond impact.

What does Impact mean to you?

We define Impact investments as those made with the intention to generate measurable societal impact – environmental, social, or both – alongside a financial return. The impact measured should make a significant positive contribution to one or more of the 17 UN Sustainable Development Goals (SDGs), with transparent reporting.

The decarbonization of the global economy and the reduction of inequalities, two of the greatest challenges of the industrial era, are now at the heart of the UN's Sustainable Development Goals (SDGs). Investors, too, can take action and offer solutions, which has prompted us to develop a bond impact strategy.

In an ideal world, impact outcomes and financial returns should be intertwined. This is why we believe that aligning financial incentives with positive impact goals can create sustainable and scalable solutions. Thus, our bond Impact strategy has two ambitious objectives - aiming to positively contribute to the UN's SDGs, and outperforming its benchmark index each year.

What sets your bond Impact strategy apart?

Our approach is based on two fundamental principles: firstly, the issuer must be sustainable, and secondly, the project financed by the issuance must meet rigorous criteria defined by Candriam.

To realize this approach, we assess the sustainability of the issuer, whether it is a company or a state. This assessment includes the analysis of normative and controversial activities, examination of the interests of all involved stakeholders, as well as identification of the key sustainability challenges each issuer faces.

However, merely excluding certain activities or integrating environmental or social criteria is just a starting point. We aspire to positively contribute to all 17 SDGs, which requires a thorough understanding of the projects in which we invest.

Thus, before any investment, we conduct a meticulous analysis of each project using key indicators. If these indicators are not met, we refrain from participating in the issuance.

Why invest in Bonds for Impact ?

Bond investors finance the activities of a company or a country. As responsible investors, we want to ensure that funds are allocated to entities to pursue sustainable activities. The bond market is the largest asset class in the global financial market, providing a reliable source of capital for governments and businesses to implement the SDGs. Relatively few new funds come from equity issuances.

60 SECONDS
WITH THE FUND MANAGER

As "owners" equity investors seek to be stewards of all activities in which the company is involved. Bond investors, on the other hand, can choose to finance some or all of a company's or a state's expansion. Sustainable bonds finance specific sustainable investments within a company. Impact investors have the opportunity to select bonds that reflect their values and impact goals. This enables them to contribute to positive change while achieving financial returns.

By opting for impact bond investments, you are embracing a broader and future-oriented strategy than traditional bonds.

How are the Sustainable and Green Bonds segments evolving, and which instruments do you include?

The sustainable bond asset class encompasses a variety of instruments -- green bonds, social bonds, and sustainable bonds -- designed to address both environmental and social objectives. Additionally, this asset class includes a new category of sustainable development bonds.The first three are project bonds which contribute to the UN SDGs by financing climate, essential services, sustainable infrastructure, socio-economic advancement and empowerment efforts. The proceeds are earmarked for specific environmental or social assets with clearly-defined impact measures through key performance indicators. Our Bond Impact strategy includes a minimum of 75% of sustainable bonds funding specific sustainable projects.

Proceeds of sustainability-linked bonds are not linked to pre-specified projects but their coupons are tied to the achievement of pre-defined KPI targets. For example, a utilities issue might use CO_2/kwh as a KPI to measure its alignment with the Paris Agreement climate goals.

We can also invest in bonds of companies whose primary business contributes to the SDGs; for example, a health care company whose operations help expand access to health care.

How do you ensure sustainable bonds are making an impact?

We combine our long-standing ESG[1] analytical framework and our fixed income credit analysis methods to verify that each Impact investment demonstrates adequate solvency, ESG commitments, and best practices. Sustainable bonds are verified using our four-pillar Use of Proceeds Framework. First, if the instrument is a green bond, the company's environmental strategy must be aligned with the Paris Climate agreement. Second, the allocation of the proceeds to eligible projects and KPIs is carefully examined for positive contribution to the SDGs. Third, thetransparencyonthemanagementof net proceeds is monitored (tracking the proceeds). Fourth, the reporting of the KPI and the evolution of the project must be verifiable at least annually.We believe this framework is one of the ways in which we are able to prevent 'greenwashing' by the issuers. As investors, we actively engage with issuers by discussing their sustainability initiatives and progress, whether by attending shareholder meetings, participating in conferences, or communicating directly with company representatives.

How do you measure – and report – Impact?

The strategy reports two KPIs – to make a positive contribution to the UN SDGs, and for a minimum of 75% of the portfolio to be invested in sustainable bonds.

Why Candriam?

The strategy aims to combine long-term financial return with sustainable impact through the bond markets. With more than 25 years of experience in ESG and long-standing expertise in Fixed Income, Candriam has detailed and time-tested frameworks for sustainable analysis of corporate and sovereign bonds. ESG risks and opportunities have long been part of our credit analysis across our fixed income range money markets to high yield and emerging debt. Our approach is global, allowing us an access to the full range of investments, public as well as private companies, and from developed to emerging markets.

Make a Double Impact!

Each year Candriam dedicates a portion of the net management fees of our responsible range and thematic funds to the financing of social impact initiatives, coordinated through the Candriam Institute for Sustainable Development.

(1) Environmental, Social & Governance.

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.

• 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.

• Interest rate risk:

A change in interest rates, resulting in particular from inflation, may cause a risk of losses and reduce the performance of the strategy (especially in the event of a rate increase if the strategy has a positive rate sensitivity and in the event of a rate reduction if the strategy has a negative rate sensitivity). Long term bonds (and related derivatives) are more sensitive to interest rate variations. A change in inflation, in other words a general rise or fall in the cost of living, is one of the factors potentially affecting interest rates and consequently the NAV.

• Credit risk:

Risk that an issuer or a counterparty will default. This risk includes the risk of changes in credit spreads and default risk. Some strategies may be exposed to the credit market and/or specific issuers in particular whose prices will change based on the expectations of the market as regards their ability to repay their debt. These strategies may also be exposed to the risk that a selected issuer will default, i.e. will be unable to honour its debt repayment, in the form of coupons and/or principal. Depending on whether the strategy is positively or negatively positioned on the credit market and/or some issuers in particular, an upward or downward movement respectively of the credit spreads, or a default, may negatively impact the performance. When evaluating the credit risk of a financial instrument, the Management Company will never rely solely on external ratings.

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