CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Re-sourcing our planet

60 seconds with the portfolio manager

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This marketing communication is intended for non-professional investors.

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60 SECONDS
WITH THE FUND MANAGER

Bastien Dublanc, Tanguy Cornet and Anaelle Stamatiou describe how an ESG (Environmental, Social, Governance) investment strategy on the theme of the circular economy can contribute to a more sustainable economy along with a long-term financial performance objective.

What is circular economy?

The circular economy is an alternative approach to the currently today's mostly 'linear' economy. Under this linear, or the **"take-make-use-waste"** way of producing and consumer goods, profits are made by exploiting natural resources to manufacture and sell as many products as possible.

In a circular economy, materials are collected and re-used. In a nutshell, the circular model used is **"make-use-collect-transform-reuse"**.

This linear process has been the way our world has generated economic growth since the 19th century. The global economy is consuming resources at 1.7 times(1) the earth's ability to renew these resources. At our current pace, by 2050 we will need three planets to provide for the needs of humanity.

Why an investment strategy to address resource depletion and waste generation?

The transition to a circular economy offers investment opportunities as well as contributing to a more sustainable economy.

What is the opportunity? It is estimated that the global economic is only 7.2% circular(2). Creating circular solutions in housing, transportation, and agriculture will be central to our climate mitigation goals. According to assessments, the circular economy represents a potential market of $4.5 trillion(3).

Identifying the companies that contribute to a more circular economy is nevertheless not an easy task and requires successful identification of the true circular actors. In our circular economy framework, we have classified them by «circular business chains». We have identified six "circular business chains", although this list might not be exhaustive.

Investing in companies that combat resource depletion and waste generation is an investment opportunity that exposes investors to amongst others risks such as equity risk, currency risk, etc.

How do you define a circular company?

The aim of the strategy is to provide exposure to those companies that, through their products and processes, help to reduce the need to extract virgin resources whilst mitigating waste generation, in particular biodegradable waste. Companies can achieve these goals in one or more of four approaches:

(1) https://www.circularity-gap.world/about
(2) Source: Circular Gap report 2023
(3) Accenture, "Waste to Wealth: Creating advantage in a circular economy", 2015

- **USE LESS** resources (using renewable or recycled resources, or rationalizing resource use)

- **RECOVER** more resources (through waste collection and sorting, recycling, waste and water treatment)

- **USE LONGER** by extending useful file (through refurbishment, repairing, repurposing, second-hand resale, design for greater durability or upgrading)

- **SHARE** to increase the utilization rate of products (through products as a service, sharing use, leasing and rental services)

Where do you find the best examples of companies contributing to the creation of the circular economy?

We begin by identifying six circular business chains – housing and infrastructure, mobility, food, products, healthcare, and communications/IT – which contribute to a more circular world. By considering verticals instead of industry sectors, we are able to identify less-obvious candidates which might otherwise be missed. For example, software which mimics physical manufacturing facilities to help predict wear and tear, helping to improve maintenance schedules and extend the life of the physical plant.

Some clear examples include materials recycling, wastewater reuse, bio waste, renewable energies, sharing platforms, circular supply chains, secondhand markets, renewable or recycled resources. Because of our vertical chain categorization, these can be companies of all sizes, without regional or sector constraints, across a wide range of industries.

How do you select the companies in which you invest?

We identify companies which contribute to one or more of the five circular business chains which contribute to a more circular economy. We screen a global universe using artificial intelligence (AI) to help us sort public information, knowledge gathered from our dialogs with companies, as well as the considerable experience and knowledge base of our Investment and ESG teams.

As for all our investments at Candriam, we screen out the small number of companies which are engaged in certain defined controversial activities, such as cluster munitions, thermal coal, or tobacco and analyze for alignment with the United National Global Compact Principles. We perform a full sustainability analysis using Environmental, Social, and Governance (ESG) factors[(4)]. This[(5)] eliminates at least 20% of the investment universe[(6)].

We score the most sustainable circular companies on their circular results, circular commitment, and circular momentum.

We analyze each circular company according to five fundamental criteria combining financial and extra-financial elements such as management quality, growth potential, competitive positioning, profitability and financial leverage. We perform a valuation of the companies and select those that we believe have long-term upside potential, building a diversified high-quality portfolio.

What makes Candriam different?

As a responsible investor, Candriam has over 25 years of ESG expertise, combined with over 25 years of thematic investment management. It is our conviction that companies able to provide real circular solutions will see add value for shareholders. To aid in this effort, 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.

(4) The ESG analysis described above is applied to at least 90% of the investments within the strategy, apart from cash deposits, liquidities and index derivatives.
(5) 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/.
(6) Indicative data which may change over time.

More specifically, our Candriam Circularity Investment Framework was created with the aim of both identifying, and scoring, the contribution of companies to a circular economy. It is not enough to identify the potential for circularity – to create a robust investment

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.

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