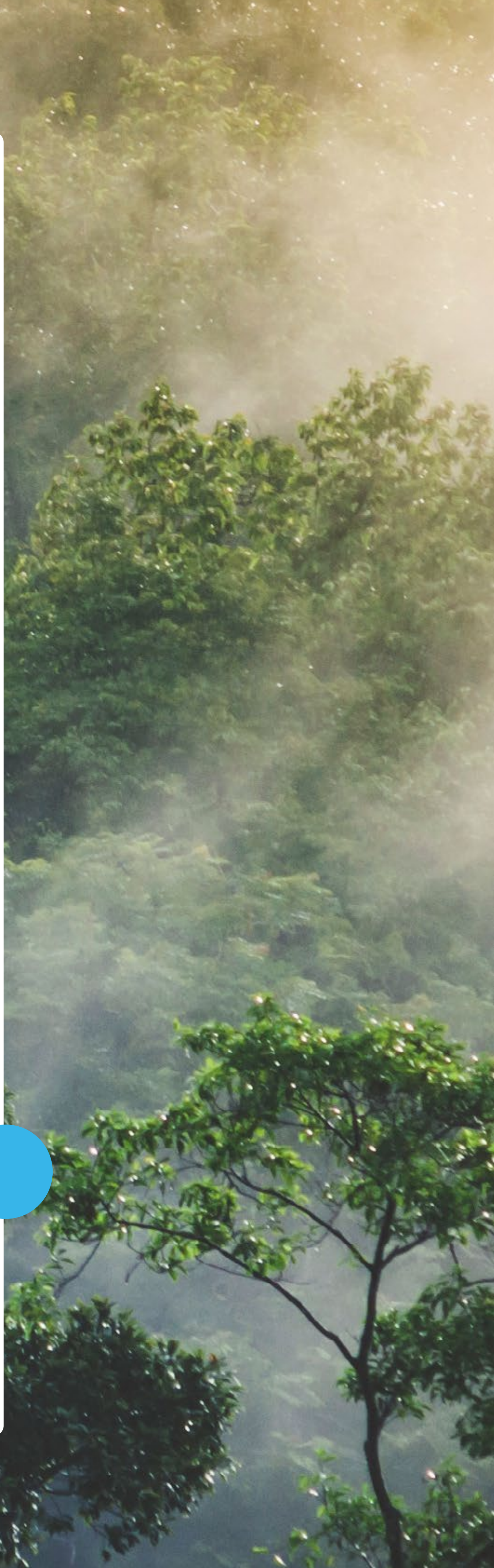
CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Net Zero progress report 2024



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Marketing communication

About the author.

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Alix Chosson joined Candriam in 2020 as the Lead ESG Analyst for Environmental Research & Investments.

Alix has thirteen years of experience as ESG Analyst in SRI research and portfolio management teams. She started her career at Amundi in 2010 and has more recently been sell-side ESG analyst at Natixis before joining in 2018 DNCA to contribute to the creation of the SRI team and range of funds.

Alix graduated from Science Po Lyon with a master in economics and finance in 2010. In 2011 she obtained a Master in Portfolio Management from the IAE Paris 12.

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Foreword.

Every year sets new records for high temperatures and the tangible effects of climate change. In several parts of the world, temperatures have already surpassed the critical +1.5°C threshold, dangerously bringing our world closer to code red.

In recent years, there has been mounting pressure for and resistance to climate action, exacerbated by a macroeconomic environment characterized by high inflation and rising interest rates. This has posed significant challenges to the industry. Growing political resistance to environmental initiatives threatens to slow the transition, not only in the United States but also across Europe.

Although it is challenged, the transition towards sustainability is not derailed. In 2023, the world witnessed a record number of new installations of renewable energy sources, largely led by China. Electric Vehicle (EV) adoption has accelerated at a pace that is now compatible with the IEA Net Zero scenario[1]. Driven by economics, technological progress and political support, the transition is inevitable. The only question now is about its form and pace.

Now is not the time to wait for the political and economic turbulence to subside. A recent report by Wood Mackenzie warns that delaying the transition by five years could push global temperatures towards a catastrophic +3°C increase, with severe economic and social repercussions.

Yes the costs of transitioning are high, and have been further increased by inflationary pressure, high interest rates and the emergence of clean technologies as a new focal point in trade and geopolitics. However, the cost of inaction is far greater, as evidenced by the escalating expenses related to insurance and the non-insured bill of natural disasters.

For companies and investors, the time to act is now, with a focus on long-term vision and conviction.

At Candriam, we believe that the energy transition is and will remain a structural trend of our economies for decades. **We remain committed to achieving Net Zero by 2050, with ambitious climate goals set for 2030.** Despite the challenges of 2023, we have made significant progress towards all our targets, and early 2024 has shown signs of further acceleration.

This initial progress report highlights the decisive steps we are taking to integrate climate considerations into our investments. While we are not yet at our 2030 targets, we are developing the essential components needed to fulfill our commitment and safeguard our clients' investments over the long term.

1 Source: World Economic Forum [Renewable energy: Global capacity increased by 50% in 2023 | World Economic Forum (weforum. org)]

Our Net Zero Commitment.

2021 marked a significant milestone in our climate strategy as we committed to achieving net zero across all our activities by 2050, in line with the objectives of the Paris agreement. In November 2021, we joined the Net Zero Asset Manager Initiative (NZAMI), which brings together 315 asset managers managing $57 trillion in assets[2], all committed to supporting the goal of net zero GHG emissions by 2050 or sooner, consistent with global efforts to limit warming to 1.5 °C.

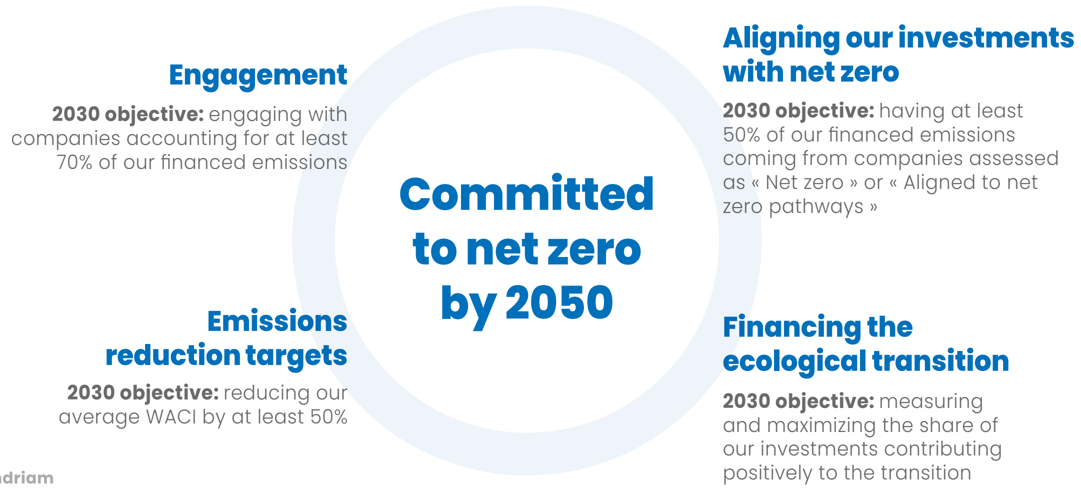
As part of this commitment, we have defined four pillars in our climate strategy and set ambitious 2030 climate objectives in order to position our investments on this net zero trajectory.

We have defined the initial scope of our net zero commitment, taking into account both the level of influence – i. e. company ownership - and the ESG positioning of our strategies. Our initial net zero scope accounts for 58% of our Candriam-branded Article 8 & 9 open-ended funds under SFDR classification. At end 2023 it accounted for 18% of our total asset under management.

While our initial net zero perimeter may seem modest, we are integrating climate integration across our investments. This is evidenced by the fact that our Article 8 funds outside our net zero scope have decarbonised at an even faster pace than the Article 8 & 9 strategies with our Net Zero perimeter.

We are continuing discussions with some of our key clients and strategic partners in order to expand this scope. Clearly, we cannot integrate ambitious climate objectives in the way we manage our clients' investments without their clear consent. Several of our institutional mandates are already aligned with net zero goals, but cannot be included in our net zero scope without client approval. We will continue these important conversations with our strategic clients and partners to more accurately reflect the proportion of assets where climate considerations are central and, in many instances, aligned with our net zero strategy.

Figure 1:
Embedding Net Zero at the Core of Our Sustainable Investment Strategy - Objective



Source: Candriam

2 Source: https://www. netzeroassetmanagers. org/

Our progress in a nutshell.

Figure 2:
Embedding Net Zero at the Core of Our Sustainable Investment Strategy - Achievement

Committed to net zero by 2050

Engagement

Achievement 2023: Engagement with 52 issuers accounting for 52.3% of our financed emissions

Aligning our investments with net zero

Achievement 2023: 66 issuers, accounting for 54% of financed emissions, have been assessed with our Net Zero Assessment framework

Emissions reduction targets

Achievement 2023: -26% reduction of the carbon intensity of our portfolios

Financing the ecological transition

Achievement 2023: integration of EU taxonomy figures in our systems

Source: Candriam

In 2021, Candriam committed to achieving net zero by 2050, in line with what climate science requires to reach the Paris goals. We launched our net zero strategy in 2022 with ambitious 2030 objectives aiming to accelerate the integration of climate in our investments.

We are well on track across our 2030 objectives.

Here are the progress we have achieved at the end of 2023.

1. Engage with companies accounting for 70% of our financed emissions, in order to make them accelerate their energy transition.

By the end of 2023, we have engaged with 52 companies, accounting for just over 52% of our financed emissions. We have not engaged for the sake of engaging, we have achieved meaningful outcomes with several companies, some of which are highlighted in this report.

And when the progress was not sufficient or companies not responsive enough, we have used escalation means, such as co-filling shareholder resolutions like we did with Shell this year, asking questions at AGMs, or voted against management-sponsored resolutions to express our discontent, as shown later in this report.

2. Reduce the carbon intensity of our portfolios by 50% by 2030, not only to limit climate-related risks but also to make sure that we finance companies that are effectively decarbonising.

We have committed to reducing the carbon intensity of our investments by 50% by 2030 from a 2019 baseline, in order to decarbonise our investments in line with the +1.5°C trajectory. At the end of 2023, we have achieved a reduction of 26%, maintaining the momentum from 2022. Early 2024 has shown a strong acceleration in decarbonisation.

3. Align our investments with net zero goals by investing in companies that are decarbonising in line with the Paris goals.

In addition to our decarbonisation objectives at portfolio level, we have set objectives at issuer level, to ensure that our portfolios' decarbonisation is driven by investments in companies actively transitioning towards net zero, rather than merely shifting to companies with inherently lower carbon intensity - usually found in low stake sectors. We committed to having 50% of the carbon footprint of our investments in companies that are already "net zero", i. e. whose business model and activities are already in line with a net zero world, or companies that are decarbonising at a pace that is consistent with their sector's net zero trajectory. Not all sectors are required to decarbonise at the same pace, depending on socioeconomic and technological considerations, and this needs to be reflected in a more fundamental and forward looking exercise. In order to assess, issuer by issuer, the ambition and credibility of companies' transition plans, we have set up a dedicated Net Zero Assessment framework that will guide our efforts in reallocating our investments towards companies that are effectively transitioning. This framework is much stricter than external ones such as the Science based targets, as it does not only look at the credibility of climate targets, but also at the company's capacity to reach these targets, looking at the strategy, investments, governance.

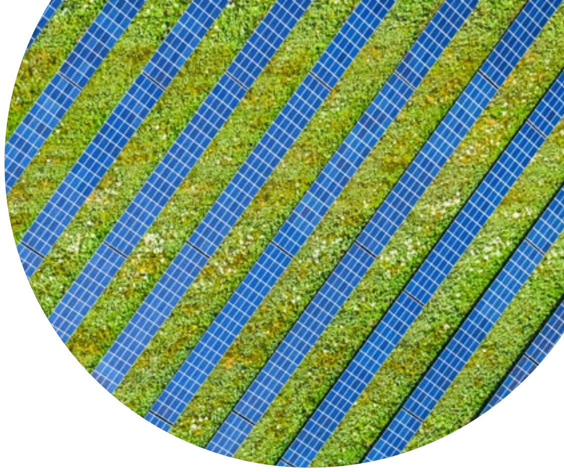
At the end of 2023, we have analyzed 66 of our highest-emitting companies under this framework. So far, less than 10% reach the "net zero" or "aligned to net zero pathway" category, but we are confident that through our engagement and investment decisions, this number will increase.

4. We are developing new data and tools in order to measure our contribution to the ecological transition.

Assessing what is "green" is not an easy task, as evidenced by years of ongoing debate and amendments to the EU taxonomy, which itself is open to interpretation, and does not differentiate in terms of level of "greenness" or priority technology for the transition. In compliance with SFDR regulation, we have integrated taxonomy-related data into our systems, although we have not set quantified objectives due to the poor quality and reliability of data that mostly remain estimations form data providers. We have also incorporated temperature metrics as standard KPIs in our investment systems. Several of our investment strategies, including environmental thematic funds and some key institutional mandates, are managed according to temperature limits.

We are also continuously monitoring new developments related to more sophisticated and impact oriented KPIs such as CO_2 avoided, which would be an interesting complement to traditional carbon KPIs in order to assess a company's contribution to reaching the Paris goals. However, here again the quality and reliability of data still needs improvement.

Let's now explore our progress on each of these pillars.



1. Engaging for Net Zero.

Net Zero engagement campain

As a key levy of our net zero strategy, we have launched a multiyear net zero engagement campaign aiming to encourage investee companies to accelerate their transition and align with a +1.5°C pathway.

Our engagement strategy involves for each target a multi-step program focused on supporting companies in their decarbonisation journey.

We have selected the targeted companies based on their contribution to Candriam's portfolio Weighted Average Carbon Intensity (WACI), financed emissions (carbon footprint), our clients' priorities and our estimated ability to engage successfully.

This direct engagement campaign currently includes over 50 issuers with whom we have regular interactions focusing on two primary objectives:

1. Enhancing the issuer's transparency regarding its decarbonisation targets and strategy,

2. Establishing clear, near-term objectives with each company in order to accelerate its transition in alignment with a net zero pathway.

Scope of our net zero engagement as of end of 2023

- We engaged with 52 issuers that are the top contributors to our net zero perimeter WACI and carbon footprint.

- These 52 issuers account for 52.3% of the financed emissions within our net zero perimeter, putting us on a solid path to achieve our target of engaging with companies responsible for 70% of our financed emissions.

- Since launching this engagement initiative in December 2022, we have contacted 52 companies directly, conducted 30 calls, held 3 in-person meetings, and sent a total of 89 emails or letters. For a dozen other companies, we plan to continue our engagement collaboratively with fellow investors to maximise our leverage.

Engagement objectives

We have set our engagement objectives in terms of coverage of our financed emissions, recognizing that setting outcome-based objectives at an aggregated level presents considerable challenges. However, we never engage just for the sake of engaging or in order to have an excuse to keep investing in companies that are not progressing fast enough. When we observe insufficient progress, we employ a series of escalation measures which, if still unproductive, may ultimately lead to divestment.

We also plan to use our Net Zero Assessment framework and the various level of alignment maturity in order to measure progress.

Working closely with our investment teams, we have established clear engagement objectives and timelines for 21 companies as part of Candriam's Net Zero Engagement initiative. We plan to put detailed engagement plans in place for all targeted companies by the end of 2024. Out of those 21 companies with which we have discussed ways of improvement, we already observed encouraging advancements with 13 of them.

Examples of positive outcomes

Société Générale SA

Societe Generale SA is a retail and commercial bank, broker, and asset manager. We have been engaging closely with the company for two years, both as part of our Net Zero Engagement plan, and also as a lead in the Institutional Investors Group on Climate Change (IIGCC) dialogue withSociété Générale. Facing the combination of engagement and multi-stakeholder pressure, SG has substantially improved its climate policy. In September 2023, the company set ambitious sectoral targets, including a 70% reduction for oil and gas financing in absolute terms by 2030, from a 2019 base, and a cessation of financing pureplay companies in upstream oil and gas, and new greenfield projects. A limit is that state-owned companies will be exempt from these commitments, thus still financeable. The bank has committed to provide more detailed information about existing clients that will be part of the exclusion. Following up on this progress, we have set new objectives around facilitated emissions, enhanced expansion policy and reinforcing unconventional exclusions.

Veolia Environnement

Veolia Environnement offers water, energy, and waste recycling services. During 2023, we had multiple constructive exchanges, establishing a set of four clear objectives for their transition strategy.

1. Say-on-Climate (SoC) at Annual General Meetings.
2. Use of science-based targets.
3. Remuneration to incorporate clear climate metrics.
4. A more ambitious target for methane capture.

As of January 2024, Veolia indicated they are working on SoC and remuneration, yet with no formal commitment. As for SBTi validation, their targets have been recently validated as aligned with a +1.5°C pathway. Their new strategy is notably expected to include an increased methane capture rate target from their landfills.

2023 net zero Engagement in figures

52 companies targeted:

- **3 in-person meetings**
- **30 calls**
- **89 letters and emails**

Net Zero vote

Voting is an integral component of our engagement strategy, serving as a powerful means to express our approval or disapproval of investee companies' climate strategies. It acts as a useful escalation tool when direct engagement does not yield the desired outcome.

We have implemented a consistent net zero voting approach, anchored in our Net Zero Assessment Framework. This framework guides our evaluation of all Say-on-Climate[3] resolutions, from a fundamental point of view.

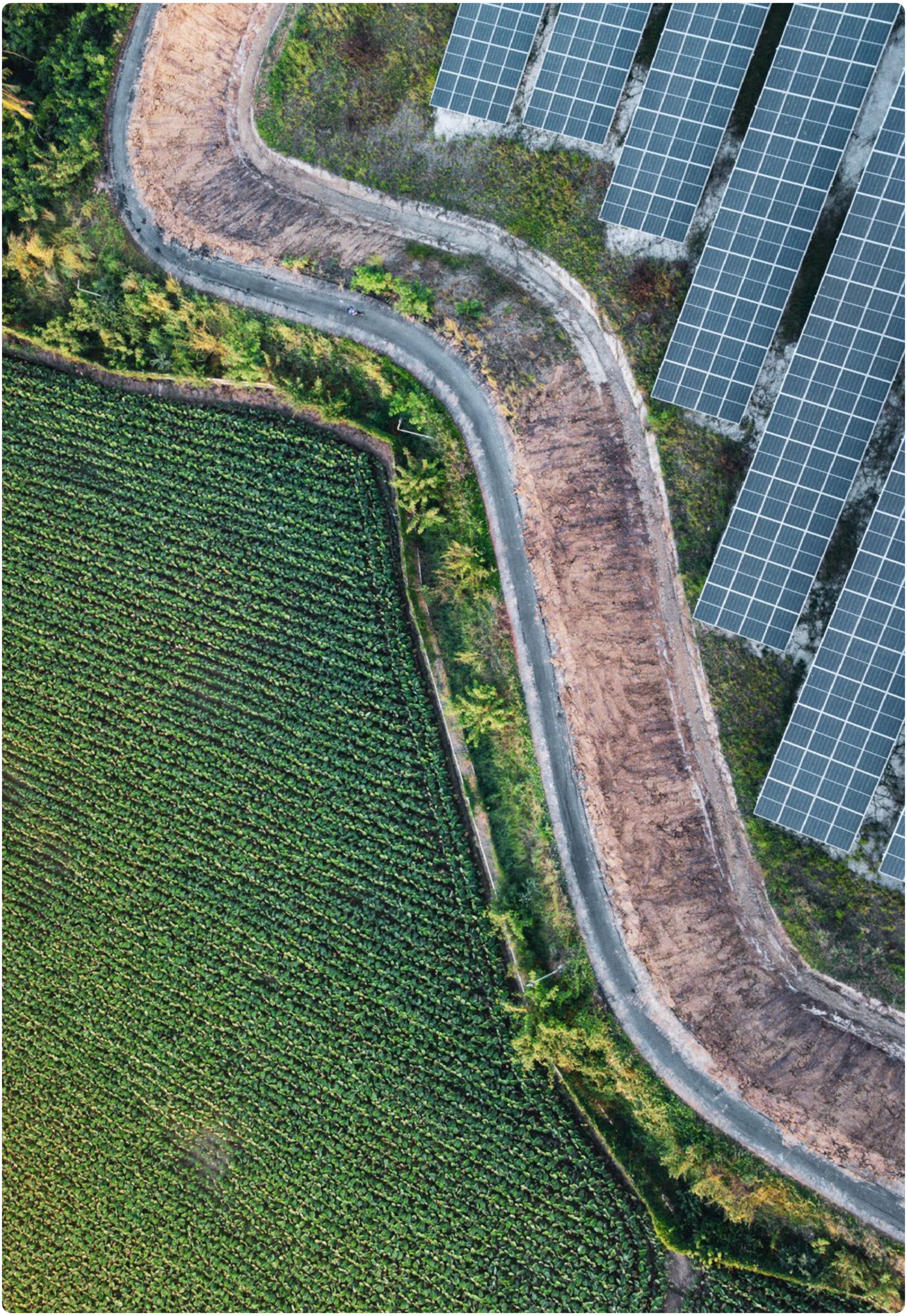
We systematically vote against the transition plans of companies if they do not align with a credible net zero pathway.

The submission of an annual Say-on-Climate is also a priority objective when engaging with carbon intensive companies. We regret the fact that only a handful of companies (26 worldwide in 2023, 18 on which Candriam could vote) have submitted Say-on-Climate resolutions in 2023. We strongly believe that putting a company's transition plan at the AGM agenda, when climate is a strategic matter, is a constructive way of fostering climate engagement and more ambitious climate action. We support regulatory initiatives aimed at elevating the importance of Say-on-Climate resolutions.

Escalation example:
co-filing shareholder resolution at Shell

Shell Plc has been a target of our net zero engagement, with whom we have engaged for years, directly and collaboratively, in order to accelerate its transition plan. In the past year, the company's top management decided to scale back its climate ambition, positioning Shell even further away from a Paris-aligned trajectory. As our engagement effort proved unsuccessful, we decided in 2023 to co-file a shareholder resolution urging the company to align its climate strategy with a +1.5°C pathway. 19% of shareholders supported this resolution, and 22% voted against Shell's transition plan.

3 A Say-on-Climate is a management-sponsored resolution asking shareholders to approve the climate transition plan and progress of the company.



2. Portfolio decarbonisation.

Net Zero engagement campain

We have committed to cut the carbon intensity of our investments by 50% by 2030 from a 2019 baseline. Why 50% by 2030? Because climate scientists estimate that a 40-50% reduction in GHG emissions is required by 2030 to meet the objectives of the Paris Agreement.

As investors, setting an absolute reduction target presents challenges, particularly because any growth in our assets under management could naturally translate into an increase in the GHG emissions we finance. Our decarbonisation objective is thus set on the carbon intensity of the activities we finance, which we measure as carbon intensity (t CO_2/m$ revenues). This is also why we communicate on our decarbonisation progress in a manner that is adjusted and unadjusted of AuM evolution, in order to provide a clearer picture of our true impact on investment decarbonisation.

The choice of the most appropriate carbon metric to reflect meaningful climate action is a subject of ongoing debate within the industry. We have selected the "Weighted Average carbon intensity" (WACI), because WACI offers greater stability and is less affected by market fluctuations, which can make it harder to assess real decarbonisation. Others players and some regulators prefer carbon footprint. Our analysis has demonstrated that the "denominator effect" – the impact of using different denominators in calculating carbon metrics - is significantly more pronounced and volatile when using a company's Entreprise Value Including Cash (EVIC) (like in carbon footprint's calculation) than when taking company's revenues (like in carbon intensity). As we constantly strive to demonstrate how the decarbonisation of our investments reflects the real world decarbonisation of the activities we finance, it appears that WACI is the most suitable metric for setting long-term decarbonisation goals.

The need for rebaselining as our net zero perimeter progresses

We started our net zero journey with a WACI of 109.9t CO_2/m$ revenues in 2019, when retreating the AuM effect between 2019 and 2021 at the time of our net zero commitment. As our net zero perimeter evolves, due to strategy growth or to the addition of new funds with higher or lower carbon intensity levels, we need to recalculate our baseline in order to fully reflect the decarbonisation of our investments. Our 2019 baseline has thus been revised to 106.3t CO_2/m$ revenues.

As of December 31, 2023, we have achieved a WACI of 82.12 t CO_2/m$ revenues. This is a 22.8% reduction with the 2023 rebased baseline and a 12.5% reduction when not rebaselining for AuM evolution.

Portfolios	% total AUM	WACI Reduction AUM rebased	WACI Reduction - AUM not rebased
Net Zero Perimeter	18.05%	-22.8%	-12.5%
Article 9 (all)	16.22%	-17.0%	-11.4%
Article 8 (all)	57.60%	-29.5%	-36.9%
Article 8&9	73.82%	-26.5%	-33.7%

Source: Candriam

What our assessment of our decarbonisation performance shows is that article 8 funds that are outside the net zero scope have had the fastest pace of decarbonisation. This does not come as a surprise, for several reasons:

- The most carbon-intensive funds have a greater decarbonisation potential.
- Our Article 9 funds, especially thematic funds focusing on the environment, invest in climate solutions in the utilities, transport and industry sectors, which typically exhibit higher carbon intensities compared to other sectors. Even large renewable and network developers often have a much higher carbon intensity than the average across all economic sectors.
- Carbon metrics are KPIs that have been monitored and scrutinised by our clients for some time, encouraging our investment teams to consider carbon impact in their investment decisions, even for funds that fall outside the net zero perimeter.

The challenge of integrating scope 3 emissions in our decarbonisation commitment

So far we only set our portfolio decarbonisation targets on emissions of scope 1&2. Our aim is to include scope 3 emissions in our commitments as soon as scope 3 emission data provide the level of quality and reliability that is necessary to set investment objectives.

The limitations associated with current scope 3 emission data are both methodological and intrinsic:

Methodological limitations: scope 3 emissions are often only partially reported by companies, meaning that most of scope 3 emission data relies on estimates provided by data vendors. These estimates are typically not derived from detailed, bottom-up fundamental analysis but rather from statistical models that calculate a sector emission factor based on companies' reports, and apply the same underestimated sector emission factor to compute the scope 3 emissions of all companies in the same sector. In practice, it means that a company developing EV charging infrastructure can have estimated scope 3 emissions of the same level as a company fully focused on thermal-based transportation. In sectors like banks and financials, which are difficult to assess, the discrepancies between companies' reported data and providers' estimates can be substantial, underestimated by more than tenfold compared to what a proper PCAF based assessment would require (PCAF is Partnership for Carbon Accounting Financials). This also means that as companies improve their disclosure of scope 3 emissions, the reported emissions are likely to mechanically increase, complicating the setting of any long-term reduction targets at this stage.

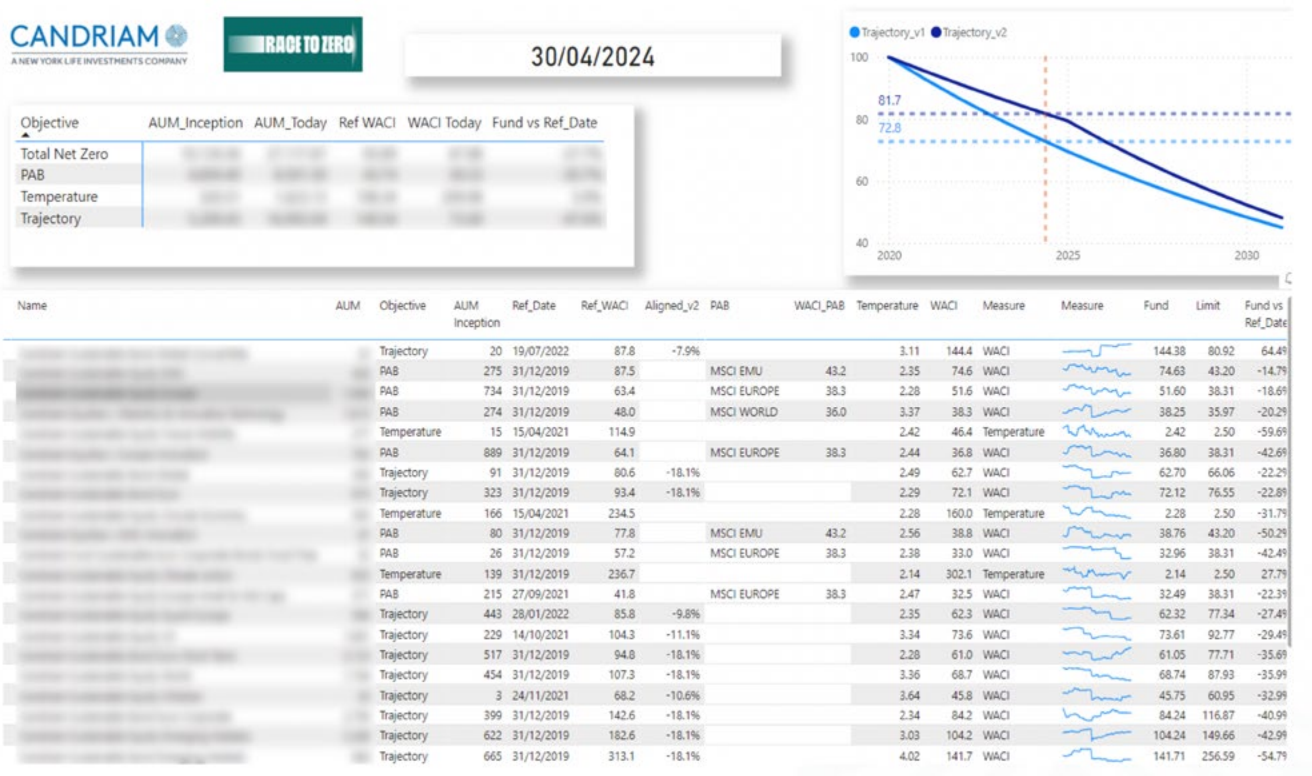
Structural limitations: While scope 3 emissions provide a more precise view of the emissions produced by the entire value chain of an activity or industry, this approach introduces significant sectoral biases - just like for scope 1&2 emissions. This is especially pronounced in the industrials sector which, by its very nature has significantly higher scope 3 emissions than the other sectors - although this is no guarantee of the quality of their positioning or their climate strategy. Capital goods, notably, are at the heart of industrial processes and have very high scope 3 (downstream) emissions. This is even more the case for companies that provide equipment or solutions aimed at reducing energy consumption for their clients: they include in their scope 3 part of the CO_2 emissions resulting from their customers' energy use. Although these companies are at the heart of the energy transformation of our industries, they face the risk of being excluded from the portfolios of investors wishing to reduce scope 3 emissions in their investments, or even be encouraged to shift their focus away from their highest-emitting customers to cater to sectors and activities that are already low-carbon - a nonsense for the financing of the transition!

Therefore, while scope 3 carbon data are essential for a detailed climate analysis at issuer level, in particular for assessing companies' alignment with the objectives of the Paris Agreement, integrating scope 3 emission reduction objectives at portfolio level remains challenging. But we aim to be able to integrate scope 3 emissions in the coming years.

In 2023, we have also developed new climate tools in collaboration with our Risk team that allow real-time monitoring of every aspect of a fund's climate performance. This has in practice led to the development of a Net Zero Progress dashboard, with drill-through tools that enable investment teams to assess what is driving the carbon performance of the funds.

Figure 3:

Candriam Net Zero Progress Dashboard



Objective	AUM_Inception	AUM_Today	Ref WACI	WACI Today	Fund vs Ref_Date
Total Net Zero	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PAB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Temperature	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trajectory	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Name	AUM	Objective	AUM Inception	Ref_Date	Ref_WACI	Aligned_v2	PAB	WACI_PAB	Temperature	WACI	Measure	Measure	Fund	Limit	Fund vs Ref_Date
[illegible]	[illegible]	Trajectory	20	19/07/2022	87.8	-7.9%			3.11	144.4	WACI		144.38	80.92	64.4%
[illegible]	[illegible]	PAB	275	31/12/2019	87.5		MSCI EMU	43.2	2.35	74.6	WACI		74.63	43.20	-14.7%
[illegible]	[illegible]	PAB	734	31/12/2019	63.4		MSCI EUROPE	38.3	2.28	51.6	WACI		51.60	38.31	-18.6%
[illegible]	[illegible]	PAB	274	31/12/2019	48.0		MSCI WORLD	36.0	3.37	38.3	WACI		38.25	35.97	-20.2%
[illegible]	[illegible]	Temperature	15	15/04/2021	114.9				2.42	46.4	Temperature		2.42	2.50	-59.6%
[illegible]	[illegible]	PAB	889	31/12/2019	64.1		MSCI EUROPE	38.3	2.44	36.8	WACI		36.80	38.31	-42.6%
[illegible]	[illegible]	Trajectory	91	31/12/2019	80.6	-18.1%			2.49	62.7	WACI		62.70	66.06	-22.2%
[illegible]	[illegible]	Trajectory	323	31/12/2019	93.4	-18.1%			2.29	72.1	WACI		72.12	76.55	-22.8%
[illegible]	[illegible]	Temperature	166	15/04/2021	234.5				2.28	160.0	Temperature		2.28	2.50	-31.7%
[illegible]	[illegible]	PAB	80	31/12/2019	77.8		MSCI EMU	43.2	2.56	38.8	WACI		38.76	43.20	-50.2%
[illegible]	[illegible]	PAB	26	31/12/2019	57.2		MSCI EUROPE	38.3	2.38	33.0	WACI		32.96	38.31	-42.4%
[illegible]	[illegible]	Temperature	139	31/12/2019	236.7				2.14	302.1	Temperature		2.14	2.50	27.7%
[illegible]	[illegible]	PAB	215	27/09/2021	41.8		MSCI EUROPE	38.3	2.47	32.5	WACI		32.49	38.31	-22.3%
[illegible]	[illegible]	Trajectory	443	28/01/2022	85.8	-9.8%			2.35	62.3	WACI		62.32	77.34	-27.4%
[illegible]	[illegible]	Trajectory	229	14/10/2021	104.3	-11.1%			3.34	73.6	WACI		73.61	92.77	-29.4%
[illegible]	[illegible]	Trajectory	517	31/12/2019	94.8	-18.1%			2.28	61.0	WACI		61.05	77.71	-35.6%
[illegible]	[illegible]	Trajectory	454	31/12/2019	107.3	-18.1%			3.36	68.7	WACI		68.74	87.93	-35.9%
[illegible]	[illegible]	Trajectory	3	24/11/2021	68.2	-10.6%			3.64	45.8	WACI		45.75	60.95	-32.9%
[illegible]	[illegible]	Trajectory	399	31/12/2019	142.6	-18.1%			2.34	84.2	WACI		84.24	116.87	-40.9%
[illegible]	[illegible]	Trajectory	622	31/12/2019	182.6	-18.1%			3.03	104.2	WACI		104.24	149.66	-42.9%
[illegible]	[illegible]	Trajectory	665	31/12/2019	313.1	-18.1%			4.02	141.7	WACI		141.71	256.59	-54.7%

Source: Candriam

In our constant strive to contribute to real-world decarbonisation, the intrinsic limitation of this portfolio decarbonisation pillar is the fact that financial decarbonisation does not necessarily translate to actual decarbonisation of the underlying assets. Decarbonising a portfolio may actually be simple: you just divest from all carbon-intensive sectors, i. e. utilities, transport, building, industry, and you invest in inherently low-carbon activities like technology, services, pharmaceuticals. However by doing this, you are not investing in a low carbon world but in a low climate stake world. This is why aligning our investment with the net zero goals should not be seen only at portfolio or sub-portfolio level, it should also be a fundamental exercise at issuer level.

3. Aligning our investments with Net Zero.

To move past the artificial nature of "financial decarbonisation", it is essential to invest in high-stake companies that are contributing positively or transforming their businesses to credibly align with net zero goals. This requires a systematic evaluation of how companies are progressing on the decarbonisation of their products and activities, especially those that play a pivotal role in the transition to a low-carbon economy.

We have thus developed a **Net Zero Assessment framework** that categorises companies based on their maturity in aligning with net zero goals. In this thorough company-specific assessment, following the recommended Sector Decarbonisation Approach (SDA), we assess whether the company has set climate targets that are aligned with its net zero sector decarbonisation pathway, taking the most relevant sector-specific indicator (usually physical intensity). We also evaluate the company's ability to reach these targets with an in-depth review of its governance, strategy and capital allocation strategy. We also pay due attention to the company's lobbying efforts, the integration of climate matters into accounting practices and risk systems, as well as its to mitigate the social impacts of its transition.

Figure 4:
Candriam's proprietary Net Zero Assessment framework

Ambition	Long-term 2050 goal consistent with achieving net zero	*Has the company set a relevant net zero objective?*
Targets	Short- and medium-term emissions reduction target (scope 1, 2 and material scope 3)	*Has the company set 2030 emission reduction objectives in both relative and absolute terms on its full relevant scope of emissions?*
Emissions performance	Current emissions intensity performance (scope 1, 2 and material scope 3) relative to targets	*What are the company's current emission levels and how do they compare with the decarbonization pathway of its relevant sector, and with peers?*
Disclosure	Disclosure of scope 1, 2 and material scope 3 emissions	*Does the company disclose its full scope of emissions? What is the quality and comprehensiveness of the scope 3 emission disclosure?*
Decarbonization strategy	Quantified plan setting out the measures that will be deployed to deliver GHG targets	*What are the quality and credibility of the company's decarbonization plan? Is the plan sufficiently transparent on the nature and contribution of its decarbonization levers?*
Capital allocation alignment	Clear demonstration that the company's capital expenditures are consistent with achieving net zero emissions by 2050	*Does the company provide sufficient disclosure on its capital allocation plans? Are investment plans aligned with the decarbonization strategy and a 1.5 °C degree trajectory?*
Climate policy engagement	Assessing the climate lobbying position and the alignment of direct and indirect lobbying activities	*Does the company provide sufficient disclosure on its climate lobbying efforts? Are these efforts aligned with the objectives of the Paris Agreement?*
Climate governance	Oversight of net zero transition planning, and executive remuneration linked to delivering targets and transition	*Has the company set relevant governance of its climate strategy with top-level ownership? Are remuneration plans and other performance incentives aligned with climate objectives?*
Just transition	Consideration given to the impacts from transitioning to a lower carbon business model on workers and communities	*Does the company consider the impacts of the transition to low carbon activities on its stakeholders? What measures did the company take to minimize negative impacts on workers and local communities?*
Climate risk and accounts	Disclosures on risks associated with the transition through TCFD reporting and integration of climate risks into financial accounts	*Has the company integrated climate in its risk management systems and accounting practices? Does the company provide sufficient information to assess the resilience of its business and strategy to various climate scenarios, including Paris-aligned? Have climate considerations been part of the verification conducted by the auditors on the various risks and accounting matters?*

Source: Candriam based on Net Zero Investment Framework from IIGCC

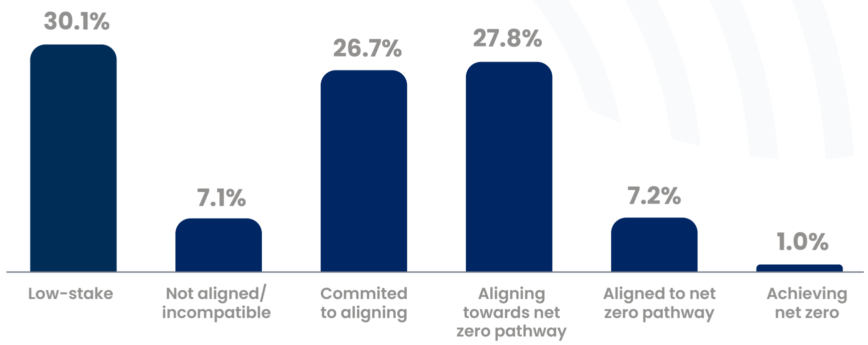
According to the results of this Net Zero Assessment Framework, all companies are categorized into 5 levels of alignment maturity, showing how advanced they are in their transition journey.

Figure 5:
Candriam's Companies Classification

Alignment maturity	Description
Achieving net zero	Current emissions at/close to 2050 net zero level & investment plan / business model in line with net zero
Aligned to net zero pathway	Companies that have set relevant targets and credible action plan to align with their sector specific net zero pathway
Aligning towards net zero	Companies that have set relevant net zero targets, but whose action plan and investments will need to accelerate to align with their sector specific net zero pathway
Committed to Net Zero	Companies that have set net zero targets but without clear action plan and investments to transition
Not aligned /incompatible	Companies that have not yet committed to net zero and/or whose activities are incompatible with a 1.5°C trajectory

At end 2023, we have analysed 66 of our highest-emitting companies according to this framework. We have conducted this net zero assessment on all high-stake companies within our net zero perimeter. The chart hereafter shows the breakdown of our financed emissions by level of alignment maturity.

Figure 6:
Breadown of alignment maturity according to proprietary Net Zero Assessment Framework (as % financed emissions)



Source: Candriam

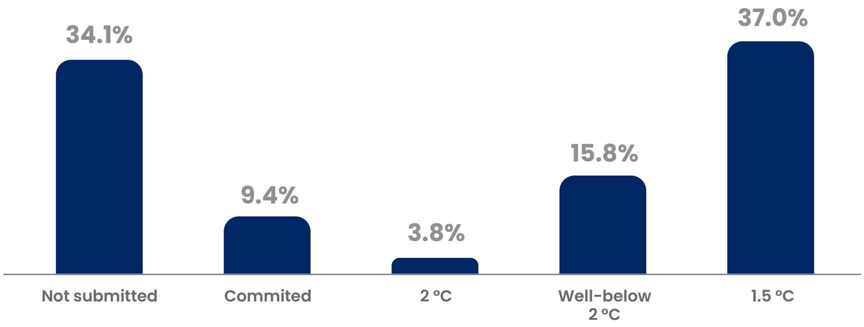
Our objective is to reach 50% of our financed emissions in companies ranked as "Achieving Net zero" or "aligned to net zero pathway by 2030". Currently, this share is 8. 2%, highlighting the strictness of our evaluation framework, and the need to accelerate our engagement efforts.

How does our Net Zero Assessment Framework compare with external reference frameworks such as SBTi's?

For reference, and to respond to growing demand from clients, we have added below the breakdown of our financed emissions according to the Science-Based targets validation categories.

As shown by the results, our Net Zero Assessment framework is much stricter than the SBTi target validation. It does not focus only on the credibility of a company's climate targets, but also evaluates the company's ability to achieve these targets, looking at the strategy, investments, governance. Another major divergence is the fact that we require absolute reduction targets, or an indication about how relative targets will impact absolute reduction across all relevant emission scopes, including scope 3 emissions where relevant. SBTi still provides more leeway to companies in computing their scope 3 emissions.

Figure 7:
SBTI - Target alignement



Source: Candriam

What is the temperature of our Net Zero perimeter?

Our climate monitoring uses temperature metrics to evaluate the extent to which our investments contribute to the energy transition. The climate rating and temperature measurement method is provided by our partner Carbon4Finance, whose methodology is among the most rigorous on the market, with a strong focus on the contribution to the energy transition and due consideration given to scope 3 emissions.

In its climate assessment, Carbon4Finance combines past, present and forward-looking metrics in order to evaluate the company's decarbonisation trajectory as well as its ability to achieve it, and to assess its degree of alignment with the sector Paris-aligned trajectory.

Figure 8:

Carbon4Finance climate impact analysis framework

CIA Overall Rating

Past performance
(Last 5 years improvement)

N-5 Raw data
Induced emissions (scope 1, 2 & 3)
Emissions savings (scope 1, 2 & 3)
Production (MWh, toe, ton cement...)

Reference Indicators
(depending on sectors)

Carbon Impact Ratio	Intensity
tCO_2e saved tCO_2e induced	ex: tCO_2e/M Wh, tCO2/ton cement, tCP2/toe...

Current performance
(Reference indicators)

Raw data
Induced emissions (scope 1, 2 & 3)
Emissions savings (scope 1, 2 & 3)
Production (MWh, toe, ton cement...)

Reference Indicators
(depending on sectors)

Carbon Impact Ratio	Intensity
tCO_2e saved tCO_2e induced	ex: tCO_2e/M Wh, tCO_2/ton cement, tCP2/toe...

Future performance
(Forward-looking rating)

Overall strategy - business structure, reduction targets
Investments: R&D, CAPEX
Scope 1 & 2 reduction target
Scope 3 reduction target
Governance - Top Management
Governance - Training
Governance - Incentives

Source: Carbon4Finance

The temperature of our Net Zero perimeter has remained stable between 2019 and 2023, to +2.7°C. In the meantime, the MSCI ACWI has gone up from +3.6°C to +3.7°C.

	NZ Perimeter	MSCI ACWI
2019	2.7 °C	3.6 °C
2023	2.7 °C	3.7 °C

Source: C4F

Note: while temperature alignment is the most sophisticated way of assessing alignment with the Paris goals, the key limitation and challenge to this assessment is the lack of methodological standards, resulting in very different outcomes when using different methodologies for the same portfolio, making any comparison between these results irrelevant.

4. Financing the ecological transition.

Using our Net Zero Assessment framework to assess key contributors to the energy transition

Our Net Zero Assessment framework allows to assess our investments' level of alignment with net zero trajectories. This evaluation is used to help reallocate our investments towards companies that are either already "achieving net zero" or whose decarbonisation strategy is aligned with a credible Paris-aligned pathway. Both engagement and the reallocation of assets towards companies that are positively contributing to the transition should help reach the target of 50% of our financed emissions in companies that are net zero or aligned with a net zero pathway.

Environmental thematic funds

Candriam manages a range of thematic, environmental strategies directly focused on climate-related matters. These include our Climate Change, Circular Economy, and Next-generation Mobility strategies, which seek to identify and invest in innovative solutions to climate-related problems, including technologies supporting climate change mitigation and adaptation, today and in the future. **At the end of 2023, these 3 strategies accounted for €3.023 bn of assets.**

We continuously work to expand our range of climate-focused investment strategies, seeking opportunities to materially contribute to climate solutions across asset classes.

Taxonomy-aligned investments

Assessing what is "green" is a challenging exercise, as evidenced by years of debate and the number of amendments brought to the EU taxonomy. Today, the EU taxonomy itself can be subject to interpretation and does not differentiate in terms of level of "greenness" or priority technology for the transition.

As mandated by the SFDR regulation, we have integrated taxonomy-related data in our systems, and we calculate for each fund its level of alignment with the EU taxonomy. However, we have not yet formalized any quantified objective on this, due to the poor quality and reliability of data, most of which remain estimates form data vendors. This situation will improve with CSRD and allow to set quantified targets in the coming years. **We will start reporting on the level of taxonomy alignment of our article 8 & 9 funds early 2025.**

Looking for more impact-oriented KPIs

We are also continuously monitoring new developments related to more sophisticated and impact oriented KPIs such as CO_2 avoided, which would be an interesting complement to traditional carbon KPIs in order to assess a company's contribution to reaching the Paris goals. However, we lack high-quality and reliable data to do so.

Next steps

In a year fraught with challenges for ESG and climate investments, we pursued our course to net zero. All our objectives remain on track, underscoring our commitment to prioritizing climate considerations in our investments. While we had aspired to expand our net zero perimeter more rapidly, the fast pace of decarbonisation of funds outside this perimeter inspires confidence in our ability to make significant progress towards this goal in the near future.

Regrettably, the growing number of governments, companies and investors committing to net zero has not yet translated in a global reduction in GHG emissions. As investors, this means that we need to intensify our efforts. A major challenge lies in translating financial decarbonisation into real-world decarbonisation. Merely reducing the carbon intensity or footprint of funds falls significantly short of aligning investments with a true net zero pathway. Financing the transition requires a robust fundamental assessment framework that incorporates credible scientific pathways and through, forward-looking evaluations. While we have a solid foundation, this will be our focus in the years ahead.

For the financial industry, a critical challenge in the upcoming years will be to precisely define "transition investments", that enables to accompany the transition of carbon-intensive, hard-to-abate sectors, while not delaying further climate action. This task is complex and will require scientific and regulatory guidance to prevent diverting investments from the transition and escalating the risk of greenwashing. Our Net Zero Assessment Framework was designed to tackle this intricate issue, and we plan to be more vocal on this front in the coming year.

€145 B

AUM at end December 2023*

+600

Experienced and committed professionals

+ 25 years

Leading the way in sustainable investing

*As of 31/12/2022, Candriam changed the Assets Under Management (AUM) calculation methodology, and AUM now includes certain assets, such as non-discretionary AUM, external fund selection, overlay services, including ESG screening services, [advisory consulting] services, white labeling services, and model portfolio delivery services that do not qualify as Regulatory Assets Under Management, as defined in the SEC's Form ADV. AUM is reported in USD. AUM not denominated in USD is converted at the spot rate as of 31/12/2023.

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