CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Net Zero progress report 2025

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About the authors.

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

Alix has fifteen 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.

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Foreword.

2024 has presented significant challenges for global climate initiatives. The COP29 outcome was disappointing, and changes in US environmental policy have raised concerns, including the impact of withdrawing from the Paris Agreement again and revising the Inflation Reduction Act. These developments will have far-reaching consequences for our economies and societies.

There is now little doubt on the fact that the transition will be delayed compared to a Paris-aligned scenario. While transition risks are being tempered, climate risks are increasingly shifting toward the physical dimension — an alarming development, economically, socially and of course, environmentally.

In October 2024, Spain experienced its costliest climate-related natural disaster on record, as severe floods swept through the Valencia region. More than 150 people lost their lives, with many more injured or displaced[1]. The direct economic cost was estimated at about €17 billion — approximately 1.7% of Spanish GDP. Then, in January 2025, Los Angeles was hit by the deadliest and costliest wildfires in history, resulting in 27 fatalities and the displacement of thousands. The overall bill has been estimated at about 250 billion $, roughly 5% of California's GDP[2] — wiped out in just eight days.

Climate is getting physical, and the economic consequences are massive. While economic studies on various climate scenarios have shown that business-as-usual +4°C scenarios could shave off 10% of global GDP[3], a recent study highlighted that when factoring in disruption to global trade and economic inter-country relations, damage could reach 40% of global GDP, potentially triggering the most severe economic crisis in recent history[4]. In comparison, the Covid-19 pandemic caused a "sharp" downturn of about 3% of global GDP…

While most environmental and political signals are sending red flags, there remain some positive trends to hold onto.

The transition is unfolding on the ground at an unprecedented rate, fueled by a **steady and powerful engine: China**. In 2024, investments in clean energy were double those in fossil fuels, with China accounting for about 60% of all clean energy investments[5]. Despite supply chain disruptions, the cost of clean energy continues to fall, and the economic competitiveness compared to fossil fuels continues to improve in most regions. In addition, renewables are increasingly seen as the key levy to ensuring more secure energy supply in a context of geopolitical tensions.

The energy transition is not a question of "**if**", but "**when**" and "**how**". As global climate action stalls, we are heading toward a more **disorderly physical transition**, one that threatens to create systemic shocks and intensify socioeconomic consequences.

This is not the time to decrease our consideration for climate as it becomes an increasing systemic risk for our financial systems — on the contrary. This **Net Zero Progress Report** highlights the steps we are continuing to take in decarbonising our portfolios. Not just to protect our planet, but also to safeguard our clients' investments over the long-term.

1 Source: World Meteorological Organization, European State of the Climate – Report 2024
2 Source: AccuWeather, https://www.accuweather.com/en/weather-news/accuweather-estimates-more-than-250-billion-in-damages-and-economic-loss-from-la-wildfires/1733821
3 Source: IOP Science, Reconsidering the macroeconomic damage of severe warming - IOPscience
4 Source: Science Direct, Dramatically higher loss of GDP under 4°C warming
5 Source: IEA, Massive global growth of renewables to 2030 is set to match entire power capacity of major economies today, moving world closer to tripling goal - News - IEA

Our Net Zero Commitment.

2021 was a landmark year for our climate strategy as we set the objective of becoming net zero across 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 asset managers from around the world, managing trillions in assets[6], all committed to supporting the goal of net zero GHG emissions by 2050 or sooner, consistent with global efforts to limit global warming to 1.5 °C.

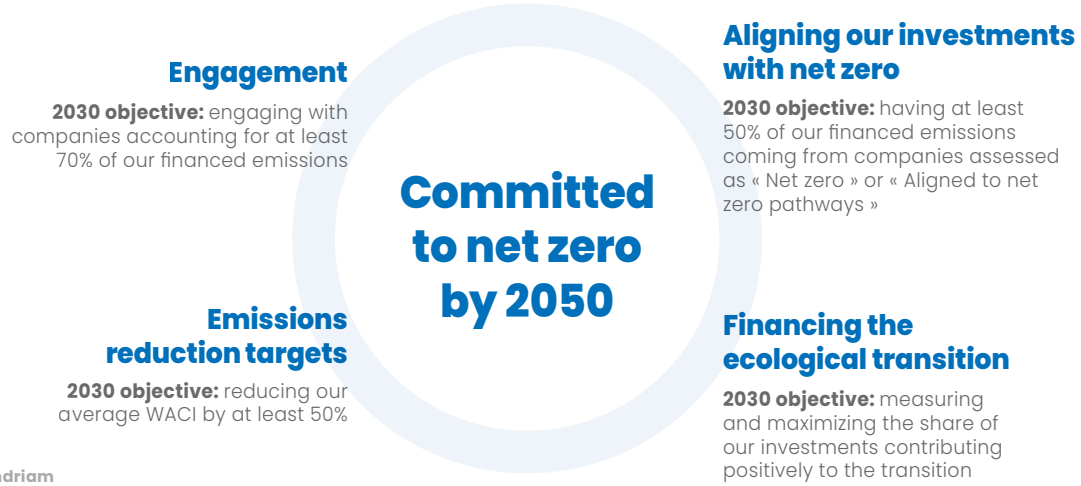
As part of this commitment, we have defined four pillars in our climate strategy and set ambitious 2030 climate objectives in order to position our investments on this net zero trajectory.

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 accounted for 16% of our total asset under management at end of 2024.**

While our initial net zero perimeter may appear limited, climate integration is being rolled out across our investments. This is highlighted by the fact that funds classified as article 8 under the Sustainable Finance Disclosure Regulation (hereafter "article 8 funds") that are not part of our net zero perimeter have decarbonised at an even faster rate than the funds classified as article 8 & article 9 under the Sustainable Finance Disclosure Regulation ("article 8 funds" and "article 9 funds")within our net zero scope. **Our article 8 & article 9 funds combined, accounting for 73% of our asset under management, have reduced their carbon intensity by 47% in 2024, already very close to our objective of -50% by 2030[7].**

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 the institutional mandates that we manage are already aligned with net zero goals, but cannot be included in this net zero perimeter without the clients' approval. We will continue this dialogue with our strategic clients and partners to, progressively, more accurately reflect the real share 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

6 Source: https://www.netzeroassetmanagers.org/
7 Source: Candriam, December 2024

Our progress in a nutshell.

2030 Objective	Achievements	Progress
Engagement 70% of financed emissions covered	56 companies engaged 51% of financed emissions	
WACI portfolio 50% reduction (2019 baseline)	-37.3% (not rebased for AuM evolution) -44.8% (rebased for AuM evolution)	
Net Zero Alignment 50% financed emissions net zero or aligned	84 companies analyzed 12% of financed emissions "Net Zero" or "Aligned"	 Coverage  Performance
Financing the transition	Integration of taxonomy data in our systems and reporting 6.4% average revenue alignment with EU taxonomy	
Expanding net zero perimeter	16% of AuM	

Source: Candriam, December 2024

Despite two challenging years for ESG investing and for climate in particular, **we are still well on track to reach all of our climate objectives**, with spectacular progress on the decarbonisation of our portfolios (including beyond our net zero perimeter). However, more efforts are needed on increasing the share of our investments aligned with net zero, and expanding our net zero perimeter.

Our 2024 net zero performance in a nutshell[8]:

- We have engaged **56 companies**, accounting for a little bit more than **51% of our financed emissions**.
- We have continued to decarbonise our portfolios at a very fast pace. **Our net zero perimeter achieved a carbon intensity reduction of 37.3% when not rebasing for AUM evolution,** and 44.8% when taking into account AUM evolution (i.e. neutralising the effect of AUM changes from one asset class to another). This number is even higher when enlarging the analysis to all article 9 and 8 funds that account for 73% of our total AuM: **the average carbon intensity of our article 8 and 9 funds has decreased by 42% when rebasing for AUM evolution and 47.2% when not rebasing for AUM evolution.** It shows that our net zero commitment goes well beyond our net zero perimeter, and that carbon considerations are taken into account across our investments, in line with our clients' expectations.
- We had analysed **84 of our most emitting companies** according to our Net Zero Assessment framework, that assesses the alignment of companies' climate strategies with the Paris goals. **We have increased the share of financed emissions coming from companies that are "net zero" or "aligned to net zero pathway", from 8% at end of 2023 to 12% at end of 2024.**

7 Source: Candriam, December 2024

- We are working on new tools and indicators to assess our financing of the ecological transition. In addition to carbon and temperature alignment indicators that are available in our investment systems across our assets, we have integrated EU taxonomy alignment numbers, and refined our green bond methodology and monitoring. The average share of revenue aligned with the EU taxonomy was 6.4% at end of 2024.

The main challenge remains to expand our net zero perimeter while keeping the same objectives, especially in terms of net zero alignment at issuer level. Due to market effects and downsizing of some of our article 9 strategies, the net zero perimeter decreased to 16% at end of 2024 (from 18% at end of 2023).

We will now review our 2024 performance in greater detail.

1. Engaging for Net Zero.

Net Zero engagement campain

In 2022, Candriam launched a net zero campaign to support our NZAMI commitment to become net zero GHG emissions by 2050 or sooner across all our activities, in line with global efforts to limit warming to 1.5°C.

Our engagement strategy follows a multi-step approach for each target, focused on supporting companies in their decarbonisation journey.

We selected the target companies based on their contribution to Candriam's portfolio Weighted Average Carbon Intensity (WACI), on their financed emissions (carbon footprint), on our clients' priorities, and our assessment of the potential for successful engagement.

This direct engagement campaign currently includes over 50 issuers with whom we have regular interactions.

Scope of our net zero engagement as of end-2024:

- 56 issuers have been engaged on their net zero practices since 2022, representing 51% of the carbon footprint (financed emissions) and 56% of the WACI within our net zero perimeter. We are on track to meet our objective of engaging with at least 70% of our financed emissions.
- These engagements inform both our internal research and our voting positions on climate-related resolutions.

Engagement objectives

Our campaign focuses on three core objectives:

1. Ensuring the accuracy and timeliness of our net zero assessments for companies.
2. Encouraging transparency around issuers' decarbonisation targets and strategies — pushing for improved disclosure and greater consistency across sectors and regions.
3. Promoting better practices by understanding the challenges and barriers that companies face in reaching their net zero goals.

   Where progress is insufficient, we apply a series of escalation measures. If engagement remains unproductive, we may ultimately divest.

2024 Net Zero Engagement in numbers

40 companies targeted:

- **1 in-person meeting**
- **13 calls**
- **130 letters and emails**

Examples of positive outcomes in 2024

Providing a detailed roadmap to net zero, with key levers to achieve their goals and the emission reduction contribution of each target

Accor* – Aligning Towards Net Zero

In 2024, we strongly encouraged Accor to publish a dedicated net zero roadmap or climate transition plan, in line with best practices from peers, disclosing both absolute and intensity-based emissions alongside water and waste metrics. On Scope 3 emissions — particularly from franchisees — we urged Accor to increase transparency and work toward full disclosure (100%), improving on its current 80% coverage. Additionally, we called for greater clarity on the contribution of individual decarbonisation levers within its strategy and for increased transparency on how carbon performance factors into relationships with building owners.

Positive Developments:

A notable improvement aligned with our engagement is the inclusion of decarbonisation levers and their respective emission reduction impacts, globally and across different operational scopes (e.g., headquarter, subsidiaries, managed and franchised sites) within Accor's 2024 Universal Registration Document (URD)[9].

Source: Candriam analysis based on company reported data. See also ACCOR_URD2024_Production_US

Improved disclosure on scope 1, 2 and material scope 3 emissions

Compagnie de Saint-Gobain*– Aligning Towards Net Zero

In 2024, we withheld support for the financial statements and auditor reappointment due to the insufficient integration of climate-related risks and assumptions into Saint-Gobain's financial reporting[10].

Positive Developments:

Although absolute Scope 3 emissions have continued to rise since 2017, there were notable advances in disclosure. Saint-Gobain has improved transparency around key decarbonisation levers and their expected contributions to 2030 targets, along with more detailed reporting on Scope 3 emissions and progress toward broader climate goals.

Source: Candriam analysis based on company reported data. See also 2024 - URD SAINT-GOBAIN - ENG

** Companies held in Candriam's portfolios*

9 - Universal Registration Document
10 - Predeclaration of Voting Intentions | Candriam

Net Zero vote

Voting is an integral component of our engagement strategy, providing as a powerful way to express our approval or disapproval of investee companies' climate strategies. It also serves as an effective escalation tool when direct engagement does not deliver the desired outcome.

For every Say-on-Climate resolution, we pre-declare our vote[11] and share our rationale directly with the company in advance. We also offer to engage in dialogue to gain a deeper understanding of the company's positioning and the challenges it faces. Our expectations are guided by the Candriam's proprietary Net Zero Assessment[12], which provides a structured and robust framework for evaluating climate strategies.

To know more about our climate change voting approach, see page 23 of our **2024 Proxy Voting Policy, available here.**

As detailed in our 2024 Mid-Year Voting report[13], 2024 saw the first rejection of a management-sponsored Say-on-Climate resolution (see the focus on Woodside Energy). The year also demonstrated a loss of momentum for such resolutions, with a decrease in the number of proposed resolutions since their peak in 2021 and 2022.

In 2022, 49 Say-on-Climate (SOC) resolutions were proposed. This number dropped to 27 in 2023, and slightly further to 26 in 2024, with the majority still originating from Europe[14]. This decline reflects a broader global slowdown in the momentum behind such resolutions.

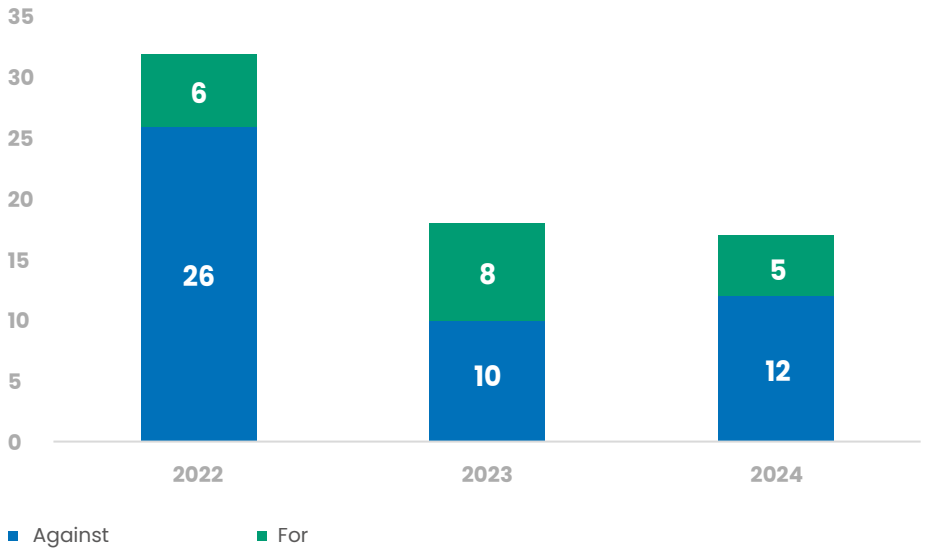
Candriam's voting patterns mirror this trend. In 2024, we reviewed and voted on 17 SOC resolutions, a number consistent with the previous year but accompanied by a sharp drop in support. While we endorsed 44% of SOC resolutions in 2023, our approval fell to 29.4% in 2024, highlighting increasing dissatisfaction with companies' lack of ambition and subpar results — particularly as the critical 2030 and 2050 climate targets draw closer.

2024 Net Zero Vote in numbers

17 Say-on-climate votes
29.4% Vote in favour
1 Say-on-climate resolution rejected at the AGM (Woodside Energy Group Ltd)

11 - Please note that Candriam's voting intention on all say-on-climate proposals in 2024 are systematically pre-declared here: Predeclaration of Voting Intentions | Candriam
12 - Source: Candriam's Climate Strategy
13 - Candriam's 2024 Mid-year Voting Report
14 - FIR, 2024 , Statistiques Say on Climate › Forum pour l'Investissement Responsable - FIR

Figure 2:
Candriam Votes on Management Say-on-Climate



Source: Candriam

Examples

Shell plc* – Not aligned with a Net Zero Pathway Escalation Continues (Co-filing of resolutions and votes against management SOC and director elections)

We have been engaging with Shell, the British multinational oil and gas company, for years, expressing our concerns regarding their energy transition strategy. We have engaged directly, collaboratively, by supporting shareholder resolutions, and by voting Against the company's Say-on-Climate resolutions. Candriam believes that the transition strategy of Shell Energy transition strategy is not aligned with achieving the Paris goals of containing global temperature rise to <+1.5°C.

Last year, the company even scaled back its climate ambition by lowering its 2030 carbon intensity reduction target from 20% to a range of 15-20%, which reflects an insufficient pace of transition. The 2035 target of reducing carbon intensity by 45% has been scrapped.

The company has not set any absolute scope 3 emissions target on its full scope of activity, and its significant growth in LNG should offset, from a carbon point of view, the reduction of emissions envisaged for oil related products. Shell has committed to $10 to $15 bn in capital spending for low-carbon energy solutions over its three-year strategic plan, about 20% of the group's total capex, very far below the objective of 50% low-carbon capex by 2030 set by the IEA in its Paris-aligned trajectory for the oil and gas sector.

We strongly encourage the company to scale up its climate ambition and accelerate its energy transition strategy to be in line with the Paris goals.

Escalating our concerns, we have **voted Against the company's Say-on-Climate resolution and co-filed and supported the shareholder climate resolution** advising Shell to align its medium-term emissions reduction targets covering the Greenhouse Gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement at the 2024 AGM.

We also **voted Against the CEO and Chairman, as well as the members of the Sustainability Committee up for re-election.**

Source: Candriam analysis based on company reported data. See also shell-energy-transition-strategy-2024.pdf
Access our vote on our predeclaration website: Predeclaration of Voting Intentions | Candriam

Woodside Energy Group Ltd* – Not aligned with a Net Zero Pathway First to Fail with only 41.6% of support.

We voted Against the Climate Transition Action Plan for Woodside Energy, the Australian petroleum exploration and production company, because it lacks ambition and credibility and does not align with the Paris goals.

The company has not adopted a commitment or plan but only an "aspiration" of net zero (scope 1&2) by 2050 or sooner. Scope 3 is not included in this aspiration, which is also conditioned on several technological, abatement-related developments that are uncertain to materialise. It has only partially disclosed a net zero by 2050 target and has not set medium-term targets aligned with a net zero by 2050 pathway.

Moreover, the company's scope 1&2 reduction plan is heavily based on carbon offsets and integrates actual emission abatement in a meaningful scale only post-2035. The company also lacks any tangible plans to reduce its Scope 3 emissions. On the contrary, its business plan remains centered on continued oil and gas production, with no significant near-term development of lower carbon services - aside from limited ventures in carbon capture and storage (CCS).

In 2023 and again in 2024, we **voted Against incumbent members of the** committee responsible for climate risk oversight due to their lack of climate ambition.

The resolution on the Climate Transition Action Plan and Progress report was rejected at the AGM, showing increased investor discontent with Woodside's current approach to addressing climate change. Whether or not this vote will lead to changes in the company's strategy remains to be seen.

Source: Candriam analysis based on company reported data. See also climate-transition-action-plan-and-2023-progress-report.pdf
Access our vote on our predeclaration website: Predeclaration of Voting Intentions | Candriam

SSE Plc*– Aligned with a Net Zero Pathway
A Leading Example of Climate Alignment

SSE Plc has provided an ambitious decarbonisation strategy, and levers are clearly identified. Progress observed over the years is promising and the company seems on track to reach its decarbonisation objectives.

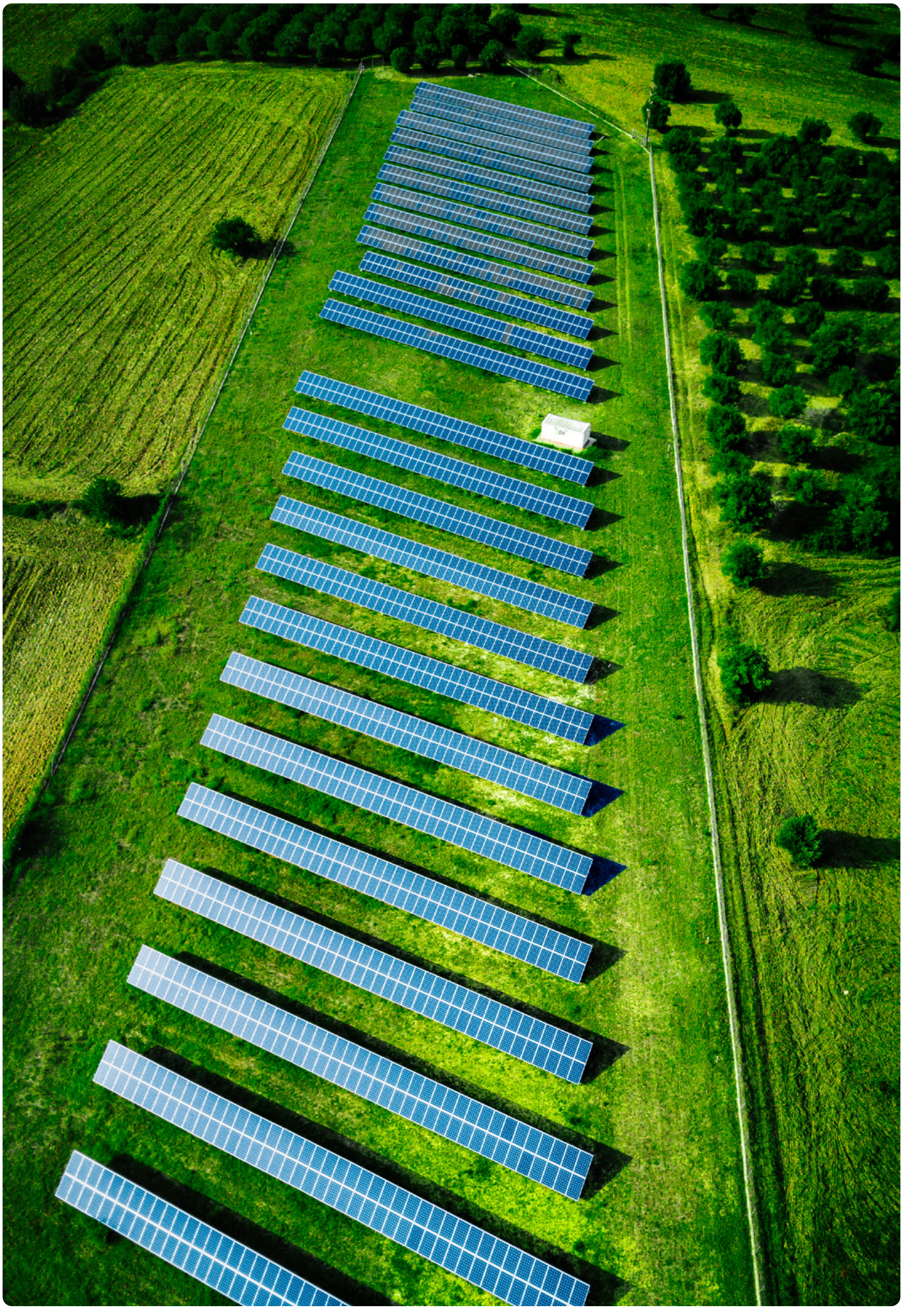
The investment plan 'NZAP Plus' was upgraded twice and now outlines plans for an expected GBP 20.5 bn of investment between 2023-2027, with around 90% for investment in renewables and electricity networks.

Targets remain unchanged from the previous plan: achieving net zero emissions for Scope 1 and 2 by 2040, and reducing Scope 1 carbon intensity by 80% by 2030 compared to 2017/18 levels to 61 gCO2e/kWh (202 gCO2e/kWh in 2023), and reaching 9 GW by 2027.

We also underline the published 2024 Just Transition progress report against its 2020 Just Transition strategy, which is a leading example of transparency in the sector.

Source: Candriam analysis based on company reported data. See also sse.com/media/214daz5u/sse-plc-net-zero-transition-report-2024.pdf
Access our vote on our predeclaration website: Predeclaration of Voting Intentions | Candriam

** Companies held in Candriam's portfolios*



2. Portfolio decarbonisation.[15]

We have committed to reducing 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 our GHG emissions by 2030 is necessary to remain on track with the Paris Agreement goals.

As an investor, it is challenging to take an absolute reduction objective, as any increase in our assets under management would naturally translate into an increase of the GHG emissions we finance. Our decarbonisation objective is thus set on the carbon intensity of the activities we finance, measured as tCO2/m$ revenues. This is also why we communicate on our decarbonisation progress in a manner that is adjusted and unadjusted to AuM evolution, so as to better highlight our ability to decarbonise our investments.

There is ongoing debate across the industry about the most appropriate carbon metric to reflect meaningful climate action. We have chosen to use the "Weighted Average Carbon Intensity" (WACI), while others, including some regulators, prefer the carbon footprint metric. Our choice is based on WACI's greater stability and its lower sensitivity to market effects, which can obscure real progress in decarbonisation. Our analysis has shown that the so-called "denominator effect" is significantly more pronounced and volatile when using company a company's enterprise value including cash (EVIC), as in the carbon footprint metric, than when using company revenues, as in carbon intensity. Since our goal is to ensure that the decarbonisation of our investments reflects the real world decarbonisation of the activities we finance, WACI proves to be better suited for setting a robust, long-term decarbonisation target.

The need for rebaselining as our net zero perimeter progresses

We began our net zero journey with a Weighted Average Carbon Intensity (WACI) of 109.9 tCO2/m$ revenues in 2019, when retreating the AUM effect between 2019 and 2021 when we committed to our net zero goal.

As our net zero perimeter evolves – due to the growth of certain strategies or the addition of new funds with significantly higher or lower carbon intensity -, we must recalculate our baseline to accurately reflect the decarbonisation progress of our investments. Following this reassessment, our 2019 baseline has been revised to 106.5 tCO_2/m$ revenues.

15 - For all data in this section, source is Candriam

As of 31 December 2024, we have achieved a Weighted Average Carbon Intensity of 58.9 $tCO_2/m$$ revenues. This is a 44.8% reduction with the 2024-rebased baseline and a 37.3% reduction when not rebaselining for AUM evolution.

Portfolios	% total AUM	WACI Reduction AUM rebased	WACI Reduction - AUM not rebased
Net Zero Perimeter	16%	-44.8%	-37.3%
Article 9 (all)	14%	-41.4%	-37.4%
Article 8 (all)	59%	-42.6%	-47.9%
Article 8&9	73%	-42%	-47.2%

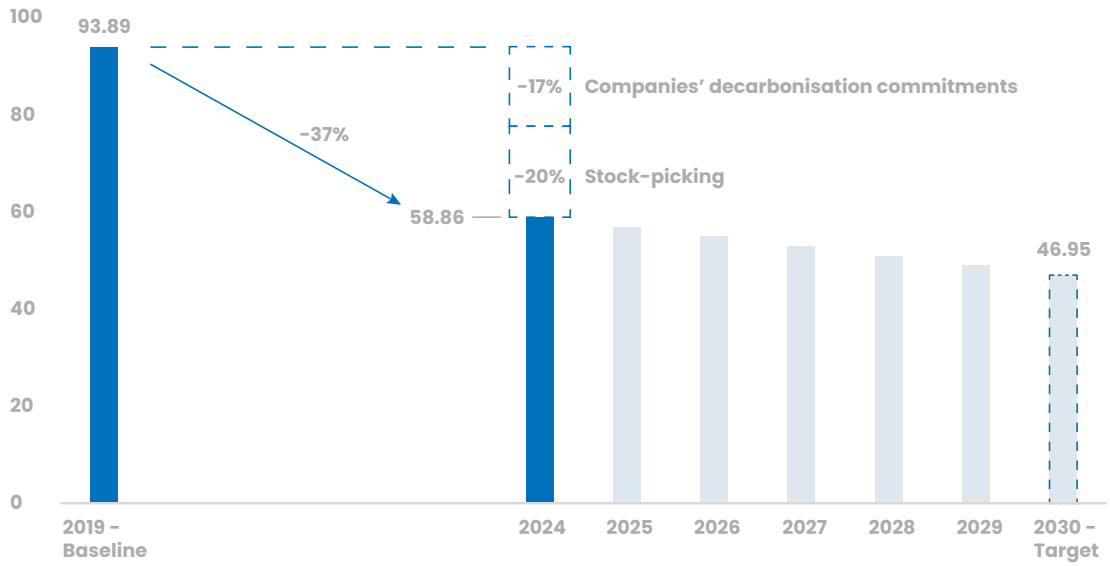
Source: Candriam, December 2024

Our assessment of our decarbonisation performance reveals that the Article 8 funds outside the net zero scope have shown the fastest pace of decarbonisation. This outcome is not surprising, for several reasons:

- Funds with higher initial carbon intensity have more room to decarbonise.
- Our Article 9 funds, particularly those with environmental or climate-focused themes, tend to invest in climate solutions across sectors such as utilities, transport, and industry. These sectors are inherently more carbon intensive than the rest of the economy. Even large renewable energy developers and grid infrastructure companies often have carbon intensity levels that exceed those of the general market.
- Carbon metrics are KPIs that have been tracked for some time by clients, encouraging our investment teams to integrate carbon considerations into their investment decisions, even for funds that are not formally included within the net zero perimeter.

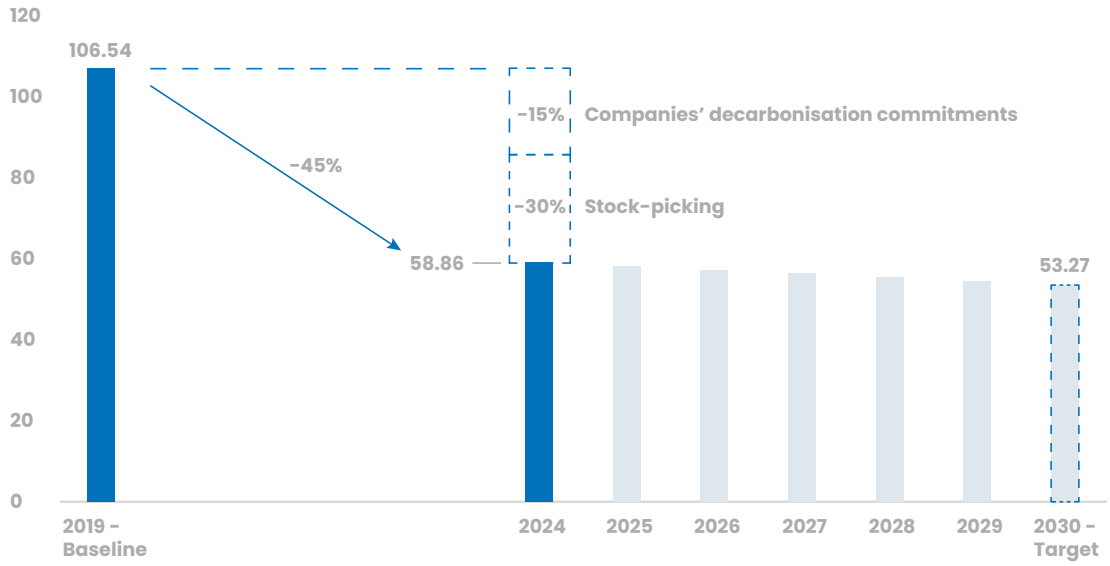
In terms of the levers used to decarbonise our portfolios, both decarbonisation of the investee companies and stock picking helped achieve this performance, with respective contribution highlighted below in both an AUM-rebased and a non-AUM rebased scenario.

Figure 3:
Weighted Average Carbon Intensity Reduction – Non-rebased AUM



Source: Candriam, December 2024

Figure 4:
Weighted Average Carbon Intensity Reduction – Rebased AUM



Source: Candriam, December 2024

The challenge of integrating scope 3 emissions in our decarbonisation commitment

Our portfolio decarbonisation targets have so far been set on scope 1 and 2 emissions only. We intend to expand our commitments to include scope 3 emissions as soon as the data reaches the level of quality and reliability required to support robust investment objectives.

The limitations of scope 3 emissions data are both methodological and structural in nature:

Methodological limitations:

Scope 3 emissions are only partially reported by companies, meaning that the majority of available data relies on estimates provided by external data vendors. These estimates are generally not based on bottom up fundamental analyses, but rather on statistical models that calculate a sector emission factor based on the limited data that companies disclose, and apply the same underestimated sector emission factor across all firms in the sector - regardless of their actual business model. In practice, this means that a company developing electric vehicle (EV) charging infrastructure may be assigned scope 3 emissions comparable to a company focused entirely on thermal-based transportation. In hard-to-assess sectors such as banks and financials, both company-reported data and data providers estimates may be underestimated by a factor of ten to what a proper PCAF based assessment would require. This also means that as disclosure of scope 3 emissions improves, reported scope 3 emissions will increase mechanically. This makes it extremely difficult to set credible long term decarbonisation targets at this stage.

Structural limitations:

While scope 3 emissions offer a more comprehensive view of the emissions produced by the entire value chain of an activity or industry, they are subject to strong sectoral biases - just as for scopes 1 and 2 data. By their nature, certain sectors, especially in industry, have inherently higher scope 3 emissions - although this is not necessarily a reflection of a poor climate strategy. This is particularly true for capital goods, which 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 helping their clients reduce energy consumption. These firms may carry in their scope 3 some of the emissions linked to their clients' energy use. Despite being at the heart of the energy transition, these companies could be excluded from portfolios targeting scope 3 reductions. They could even be discouraged from working with higher-emitting clients, in favor of low-carbon sectors and activities - a nonsense for the financing of the transition!

In summary, while scope 3 carbon data is essential for issuer-level climate analysis - particularly for assessing companies' alignment with the objectives of the Paris Agreement - , it remains difficult to integrate robust scope 3 emission reduction targets at the portfolio level. However, we aim to be able to integrate scope 3 emissions into our objectives in the coming years, and before 2030.

In our continued effort to contribute to real-world decarbonisation, a key limitation of portfolio-level decarbonisation targets is the fact that financial decarbonisation does not always equate real decarbonisation of underlying assets. In fact, it is relatively easy to reduce the carbon intensity of a portfolio by simply divesting from carbon-intensive sectors - i.e. the part of the economy that needs to decarbonize (utilities, transport, building, industry) – and reallocating capital to inherently low-carbon sectors like technology, services, or pharmaceuticals. However, doing so does not equate investing in a low-carbon world. Rather, it means investing in a low climate stake world – that may not play a central role in the transition. This is why aligning our investments with net zero goals should not be approached solely at the portfolio or sub-portfolio level. It must also be a fundamental exercise at issuer level.

3. Aligning our investments with Net Zero.

To go beyond the artificial nature of "financial decarbonisation", it is essential to focus on investing in high-stake companies – those that are either actively contributing positively or transforming their business models to credibly align with net zero goals. Achieving this requires a systematic assessment of how companies are progressing on the decarbonisation of their products and activities, especially in sectors that are central to the energy transition.

To support this, we have developed a **Net Zero Assessment Framework** designed to help position companies along a Net Zero Alignment Maturity Scale. In this comprehensive company-specific assessment, following the recommended Sector Decarbonisation Approach (SDA), we evaluate whether a company's climate targets are aligned with its sector-specific decarbonisation pathway, using the most relevant sector-specific indicator (usually physical intensity). We also assess the company's ability to deliver on its commitments through a detailed analysis of its governance structures, strategy and capital allocation decisions. We also pay close attention to the company's lobbying efforts, the integration of climate matters into its accounting practices and risk management systems, as well as the company's plan to mitigate the social impacts of its transition.

Figure 5:
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

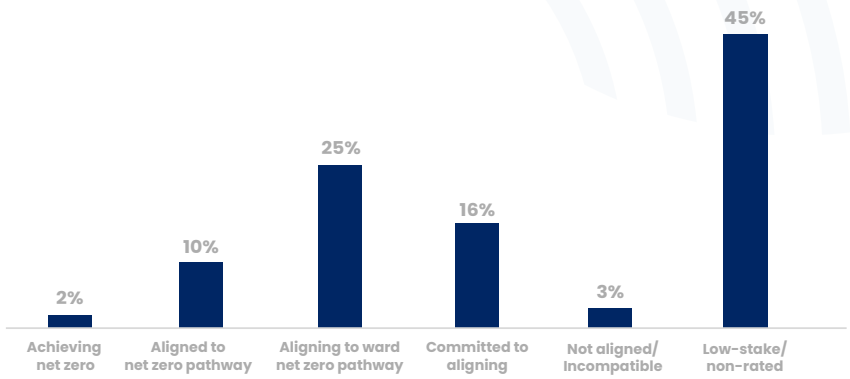
According to the results of this Net Zero Assessment Framework, all companies are categorized into 5 levels of alignment maturity, showing how advanced they are in their transition journey.

Figure 6:
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 2024, we have analysed 84 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 7:
Breakdown of alignment maturity according to proprietary Net Zero Assessment Framework (as % of financed emissions)



Source: Candriam

Our objective is to reach 50% of our financed emissions in companies assessed as "Achieving net zero" or "Aligned to net zero pathway" by 2030. Currently, this share is 12%, reflecting the strictness of our evaluation framework, and the need to accelerate our engagement efforts. We however note a significant increase from 8% at end 2023.

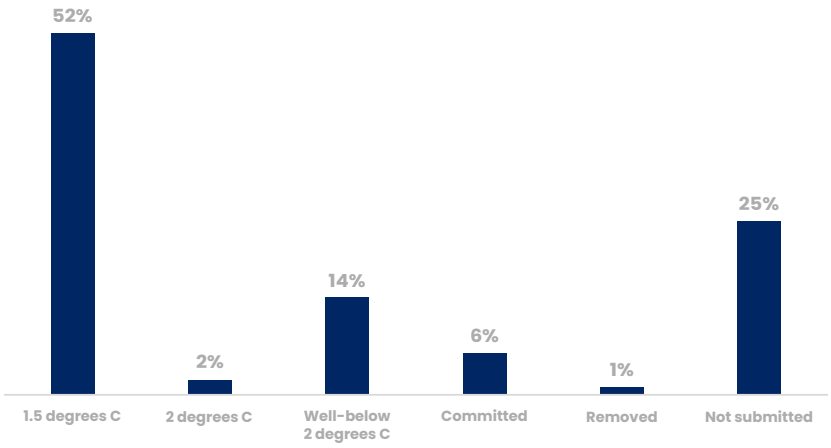
How does our Net Zero Assessment Framework compare with external reference frameworks such as SBTi's (Science-Based Target Initiative)?

For reference, and as this information is increasingly used and demanded by clients, we have added below the breakdown of our financed emissions according to the Science-Based targets validation categories.

This assessment shows that about 52% of our financed emissions are coming from companies that have had their climate targets validated as "aligned with a 1.5°C trajectory", which is much higher than our own Net Zero Assessment (16% "net zero" or "aligned").

This highlights that our Net Zero Assessment Framework is significantly more stringent than the SBTi target validation process: our framework does not only assess the credibility of climate targets, but goes further by evaluating companies' capacity to deliver on those targets, looking at their strategy, investments, and governance. Another key point of divergence lies in our emphasis on absolute emissions reduction. We require companies to set absolute reduction targets, or at a minimum, to clearly demonstrate how relative targets will translate into absolute emissions reduction across all relevant scopes, including scope 3 where relevant. SBTi still provides more flexibility to companies in computing their scope 3 emissions targets - in practice, most companies only commit to small intensity-based reduction targets.

Figure 8:
SBTI - Target alignement



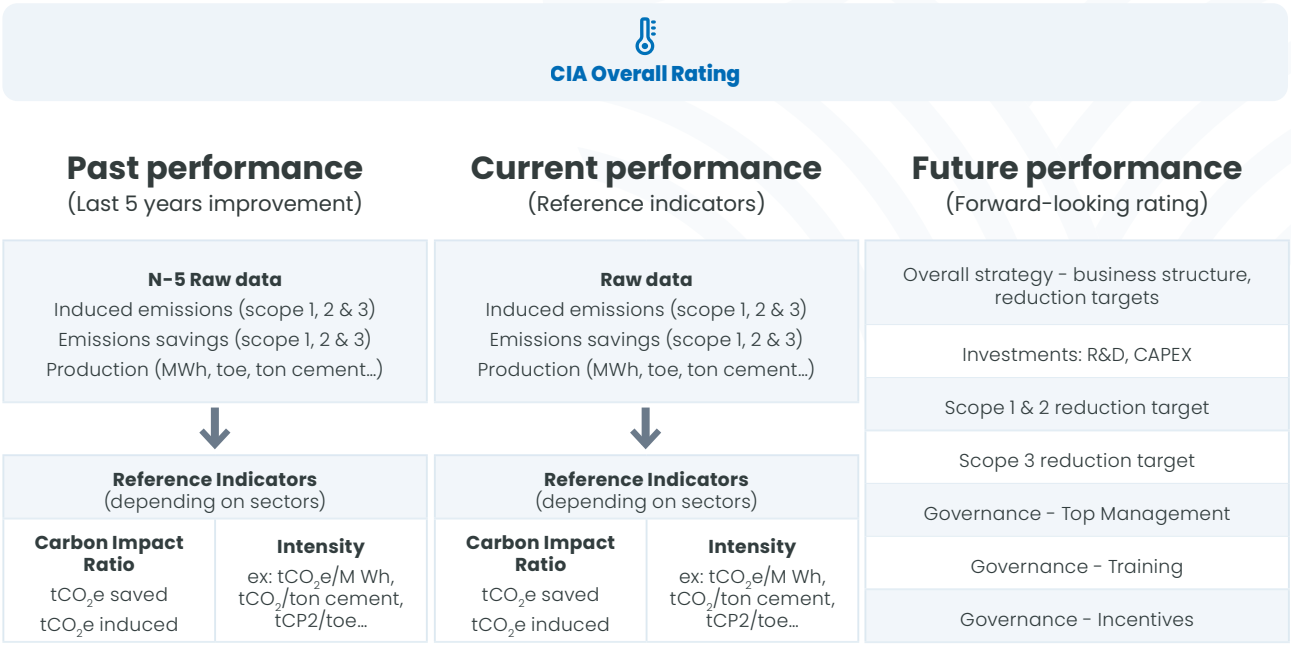
Source: Candriam

What is the temperature of our Net Zero perimeter?

In our climate monitoring we use 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 strictest 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 9:
Carbon4Finance climate impact analysis framework



Source: Carbon4Finance

The temperature of our net zero perimeter has remained stable between 2019 and 2024, to +2.7°C. In the meantime, the MSCI ACWI has remained high at +3.6°C.

	NZ Perimeter	MSCI ACWI
2019	+2.7°C	+3.6°C
2023	+2.7°C	+3.7°C
2024	+2.7°C	+3.6°C

Source: Carbon4Finance

Note: while temperature alignment is the most sophisticated way of assessing alignment with the Paris goals, the key limitation and challenge to its 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 contribution to the transition will be needed to reaching the target of 50% of our financed emissions in companies that are net zero or aligned with a net zero pathway.

Investing in Green Bonds

Candriam also leverages green debt instruments to actively support and finance the ecological transition of both corporate and sovereign issuers. Through investments in labelled issuances — such as green bonds — we help channel capital toward a wide range of eligible projects that contribute to decarbonisation efforts, including but not limited to renewable energy, energy efficiency, sustainable water management, and natural resources preservation and restoration related projects, thereby supporting issuers in meeting their climate-related commitments.

To reinforce this approach, Candriam has established Key Performance Indicators (KPIs) for several of its fixed income strategies[16], setting a minimum threshold for the percentage of the portfolio's total net assets that must be allocated to green bonds. These targets typically range from 10% to 20%, depending on the specific strategy, and reflect our commitment to integrating sustainability objectives into our investment processes.

In addition, Candriam has developed a dedicated bond impact strategy which aims to take this commitment one step further. This strategy seeks not only to finance the ecological transition of corporate and sovereign issuers, but also to generate measurable, long-term positive impact through its investments. For this strategy, a KPI has been set requiring a minimum of 75% of the portfolio to be invested in Green, Social, or Sustainability Bonds. Moreover, the fund may also invest in Sustainability-Linked Bonds (SLBs), which further support decarbonisation efforts. These instruments have performance-based features, such as coupon adjustments tied to the issuer's achievement of predefined environmental or climate-related targets, thereby reinforcing our financing of the ecological transition.

As an example, in 2024 the fund invested in Iberdrola's green bond issued in November 2022. This decision was driven by Iberdrola's strong climate transition strategy and the nature of the projects financed by the bond. Notably, Iberdrola has committed to reducing its global carbon intensity to below 10 g CO_2/kWh by 2030. This target is significantly more ambitious than most peers as well as the European and Spanish Net Zero objectives, which set a carbon intensity goal of 79 g CO_2/kWh by the same year. This objective should support the company's long-term target to reach net zero emissions worldwide across scope 1, 2, and 3 by 2039.

Furthermore, the projects financed by the November 2022 issuance were fully allocated to a diversified portfolio of renewable energy assets. Among these is the Iglesias wind farm, with an expected installed capacity of 94 megawatts. This project alone is projected to prevent approximately 250,000 tCO_2 emissions annually[17].

At the end of 2024, 21% of the assets under management within our fixed income funds included in our net zero perimeter were invested in green bonds.

16 - For the threshold applicable to each strategy, please refer to Candriam's fund page.
17 - Iberdrola's Green Financing returns report - 2024; Siemens Gamesa and Iberdrola to commission Spain's first wind farm with the most powerful onshore wind platform - Iberdrola España

Environmental thematic funds

Candriam manages a range of thematic, environmental strategies directly focused on climate-related matters. These include our Climate Action, Circular Economy, and Future 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 2024, these three strategies represented EUR 1.4 bn of assets[18].**

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

Taxonomy-aligned investments

It is not an easy exercise to assess what is "green" - as shown by years of debate and amendments on the EU taxonomy. Today, even the EU taxonomy 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 taken quantified objectives on this, due to the poor quality and reliability of data that mostly remain estimates from data providers.

We will start reporting on the level of taxonomy alignment of our article 8 & 9 funds early 2025. As of end 2024, 6.4% of our net zero perimeter was aligned with the EU taxonomy, above the alignment of MSCI ACWI's (6.2%).

Looking for more impact-oriented KPIs

We are also continuously monitoring new developments related to more sophisticated and impact-oriented KPIs, such as avoided CO2 emissions, which would be a valuable complement to traditional carbon KPIs in order to assess a company's contribution to reaching the goals of the Paris Agreement. However, here again the current quality and reliability of data remain insufficient.

18 - Source: Candriam

Next steps

2024 has been a challenging year for ESG investing, particularly for climate-related strategies. We have witnessed significant rollbacks in environmental regulation, and the path ahead promises to be just as turbulent. While these shifts will leave lasting impacts, political sentiment alone will not stop a train already in motion — one that is increasingly driven by underlying economic forces.

Yes, the transition is experiencing delays. But it is far from derailed.

Investors will need to undertake deep, forward-looking analysis to differentiate surface-level political noise from what is truly happening on the ground. This is where conviction and long-term perspective become essential. Our responsibility is to remain focused on the mandate entrusted to us by our clients: to balance their financial and sustainability expectations to deliver long-term returns. It is on this belief that we have built our net zero strategy, whose ultimate end is to mitigate climate-related risks over the long term.

Climate risks are becoming physical – so we are strengthening our approach

In a world where the net zero transition is delayed, integrating physical climate risks has become a top priority. This is a complex task, requiring access to new datasets, the integration of climate scenarios, and sophisticated models to translate physical risks into financial impacts. But **complexity must not be an excuse for inaction**. On the contrary, it is an opportunity for innovation. We are committed to adding this new dimension into our climate analysis over the coming year and look forward to reporting on our progress in our next net zero progress report.

€156 Bn

of assets under management 30 June 2025

600+

experts at your service

+25 years

of innovation and expertise

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