CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

It's time for climate action

60 seconds with the fund manager

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Marketing communication

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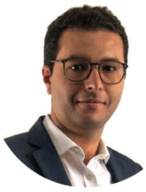
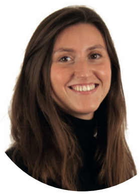


Marouane Bouchriha



Astrid Pierard

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Vincent Meuleman, Co-fund manager, Marouane Bouchriha, CFA, Co-Fund Manager, Alix Chosson, Lead ESG Analyst, and Astrid Pierard, ESG Analyst, explain how an ESG (Environmental, Social & Governance) strategy investing in climate change can help combat global warming while incorporating a long-term performance target.

Why offer investors a strategy on climate change?

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

Even more disastrous consequences of global warming are expected once temperatures rise to 1.5°C above their preindustrial era level, according to the IPCC[1] report. Today, the globe has warmed by almost 1°C. Time to 'get cracking'!

Studies show the considerable impact of global warming on the ecosystem, the economy, society and, indeed, on all human activity. The number of meteorological disasters has increased five-fold in the past 50 years[2]. Just one of these events, Storm Uri in Texas in 2021, cost nearly $200 billion[3]. And that is just one example among dozens of others!

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

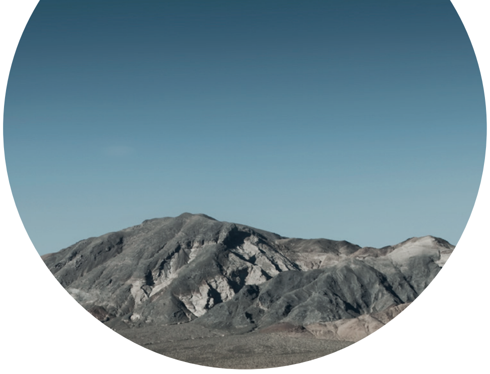
How do you generate your investment ideas?

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

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

60 SECONDS WITH THE FUND MANAGER

(1) Report by the Intergovernmental Panel on Climate Change published in August 2021.
(2) Source: World Meteorological Organization.
(3) Source: Aon.



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

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

The four economic sectors that emit most CO_2 obviously have to reduce their carbon foot print. These include Construction (7% of CO_2 emissions), Industrial (20%), Transportation (23%) and Energy (41%). Within these sectors, we shall target those companies that provide solutions to fight global warming, and those operating within these companies' ecosystem – such as providers of insulation for the construction industry. We seek companies of all sizes, from all sectors and geographical regions, and from a wide range of industries.

How do you choose companies?

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

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

We first use a double thematic filter to compile our "investable[5]" universe:

the companies are split into categories based on our two approaches: mitigation and adap tation. To this end, we have developed a proprietary tool that enables us to conduct a detailed analysis of each company's contribution to environmental issues (as a percentage of their turnover). We carry out extra-financial analysis in order to better understand the risks and opportunities associated with ESG criteria[6]. We also assess the extent to which a company's activities are exposed to major sustainability issues, and how it manages its relations with stakeholders. We then conduct an indepth analysis of each company within the investment universe based on five fundamental criteria combining financial and extra-financial analysis: quality of management, growth potential, competitive positioning, high profitability and low debt levels.

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

What does this strategy mean for my investments?

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

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

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

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

(4) Carbone 4 is the first independent consulting firm specializing in low-carbon strategy and adaptation to climate change.
(5) We only take into account sectors that are not excluded by the "Candriam Exclusion Policy". This document can be downloaded here: https://www.candriam.fr/fr/professional/market-insights/sri-publications/.
(6) The ESG analysis covers the entire strategy, excluding deposits, cash and index derivatives.

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

The integration of ESG factors into the finan cial analysis of companies, the commitment to a constructive dialogue[7] with companies to encourage best practices, and the exercise of our voting rights should be the norm for com mitted investors. ESG is more than just three letters. At Candriam, these three actions have been a reality in our daily investing life for more than 25 years, now and the new strategy is no exception to the rule!

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

The main risks of the strategy are:

- **Risk of capital loss**
- **ESG Investment Risk**
- **Equity risk**
- **Currency risk**
- **Liquidity risk**
- **Concentration risk**
- **Derivative risk**
- **Counterparty Risk**
- **Emerging market risk**
- **Risk on A-Shares (China)**
- **External factors risk**

ESG Investment Risk: The non-financial objectives presented in this document are based upon the realization of assumptions made by Candriam. These assumptions are made according to Candriam's ESG rating models, the implementation of which necessitates access to various quantitative as well as qualitative data, depending on the sector and the exact activities of a given company. The availability, the quality and the reliability of these data can vary, and therefore can affect Candriam's ESG ratings. For more information on ESG investment risk, please refer to the Transparency Codes, or the prospectus if a fund.

Find out more about our funds and their risk profiles:

www.candriam.com

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