

# Combine credit management with a sustainable approach for your portfolio

60 seconds with the  
fund manager



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This marketing communication is intended  
for non-professional investors.





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**Thomas Madesclaire, Senior Portfolio Manager, and Dany Da Fonseca, CFA, Senior Portfolio Manager, present their Euro Corporate Sustainable strategy and explain why they believe it is essential to combine credit and ESG analysis<sup>(1)</sup>.**



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## How is the credit management market evolving?

Investors, issuers and regulators are increasingly sensitive to Environmental, Social and Governance (ESG) issues, making these factors a must in the credit market.

Beyond the desire to understand and avoid ESG-related risks, investors are increasingly recognizing the opportunities offered by the ESG dimension of credit.

Regulatory requirements are reinforcing the need for transparency and publication of information on sustainable and responsible investment. For example, the European Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants to disclose their sustainability risks and potential negative impacts on ESG factors. This regulatory element is a key driver for the adoption of ESG approaches.

Finally, the rise of Impact Bonds (particularly Green Bonds) over the last decade is helping to promote the integration of the ESG dimension within the credit markets.

These instruments, whose aim is to finance projects with a measurable extra-financial impact, enable issuers to improve the level of extra-financial transparency of their financing on the one hand, and investors to better consider the impact of their investments on the other.

## How would you describe the strategy?

The Euro Corporate Sustainable Bond strategy invests in instruments across the global credit markets, mainly in euro-denominated Investment Grade (IG) issues. The strategy combines a high-conviction approach with flexible, active management to seek to generate attractive risk-adjusted returns across credit cycles. The strategy also aims to diversify through investments in green, social and sustainable bonds, a growing asset class within the IG credit sector.

At Candriam, we believe that ESG factors are essential to fully understand an issuer's credit profile. Consequently, we integrate ESG considerations into our fundamental analysis.

Risk management, present at every stage of the investment process, forms the backbone of our strategy. Risk measurement and management play a role in the idea generation process, the identification and selection of the best opportunities, portfolio construction, and portfolio monitoring.

**60 SECONDS**  
**WITH THE FUND MANAGER**

<sup>(1)</sup> Environmental, social & governance.



## What is your bond selection process?

A detailed fundamental analysis of issuers gives us a comprehensive view of each issuer's operational and financial profiles. We complement our analysis with liquidity filters, and through our normative analysis and our policy of excluding<sup>(2)</sup> controversial activities.

Together with our fundamental analysis, our in-depth understanding of the credit market enables us to adopt a flexible and opportunistic approach in an attempt to achieve an optimal portfolio based on carefully selected issuers and issues.

Our investment universe is determined using a three-stage process: an ESG analysis, a liquidity filter and a credit analysis. To define our investable universe, in addition to our exclusion policy, our in-house team of extra-financial analysts establishes ESG scores using our proprietary method, which determines the quality of issuers exclusively from an ESG point of view. The aim is to include only those issuers with the highest ESG profiles, regardless of their economic sector.

Our credit analysis is based on three pillars -- fundamental analysis, quantitative analysis and legal analysis. We pay particular attention to the quality of issuers' operational and financial profiles, adapting our approach according to their nature (financial or non-financial).

With this process, we aim to build an optimal portfolio for our investors, maximizing opportunities while seeking to identify and manage risks.

Finally, the strategy has a bias towards integrating green bonds, reflecting their positive ESG characteristics.

## How does the Candriam ESG selection work?

Our conviction is long-term, as we believe that issuers with solid ESG profiles are best prepared to face future challenges, economic or otherwise.

Our team of ESG analysts, after applying the exclusion filters based on normative analysis and controversial activities, assesses companies by looking at their ability to integrate sustainability into their business activities and to take into account the interests of stakeholders. The management team then selects the best-positioned companies based on sustainability indicators.



Our ESG analysis combines:

- An analysis of business activities – based on five major trends (climate change, resource depletion, digitization, health and well-being, and demographic change), assessing their relevance to the company concerned and its sector, in order to assign a score weighted by the company's exposure to these trends.
- Stakeholder analysis: relationships with stakeholders represent both opportunities and risks for companies. We assess how these relationships are integrated into the company's long-term strategy by looking at six categories of stakeholders: investors, employees, suppliers, environment, customers and society. A weighted score is awarded based on the relevance of each category to the company.

An ESG rating is thus assigned by combining the weighted business and stakeholder scores.

## What is Candriam's added value in this strategy?

With over 25 years of experience in sustainable investment, Candriam is a recognized player that places credit analysis at the heart of our investment management.

By integrating extra-financial criteria into our assessments, we can identify risks that might otherwise escape traditional financial analysis. This holistic approach enables us to make informed investment decisions that take into account both financial and ESG factors, reinforcing our risk management and sustainable investment practices.

<sup>(2)</sup> For more details, the full Candriam exclusion policy is available on our website at the following link: [Candriam Exclusion Policy](#)

# The main risks of the strategy are:

- **Risk of capital loss:**

There is no guarantee for investors relating to the capital invested in the strategy in question, and investors may not receive back the full amount invested.

- **ESG Investment Risk:**

The non-financial objectives presented in this document are based upon the realization of assumptions made by Candriam. These assumptions are made according to Candriam's ESG rating models, the implementation of which necessitates access to various quantitative as well as qualitative data, depending on the sector and the exact activities of a given company. The availability, the quality and the reliability of these data can vary, and therefore can affect Candriam's ESG ratings.

- **Interest rate risk:**

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

- **Credit risk:**

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

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



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Information on sustainability-related aspects: the information on sustainability-related aspects contained in this communication are available on Candriam webpage <https://www.candriam.com/en/professional/sfdr/>.