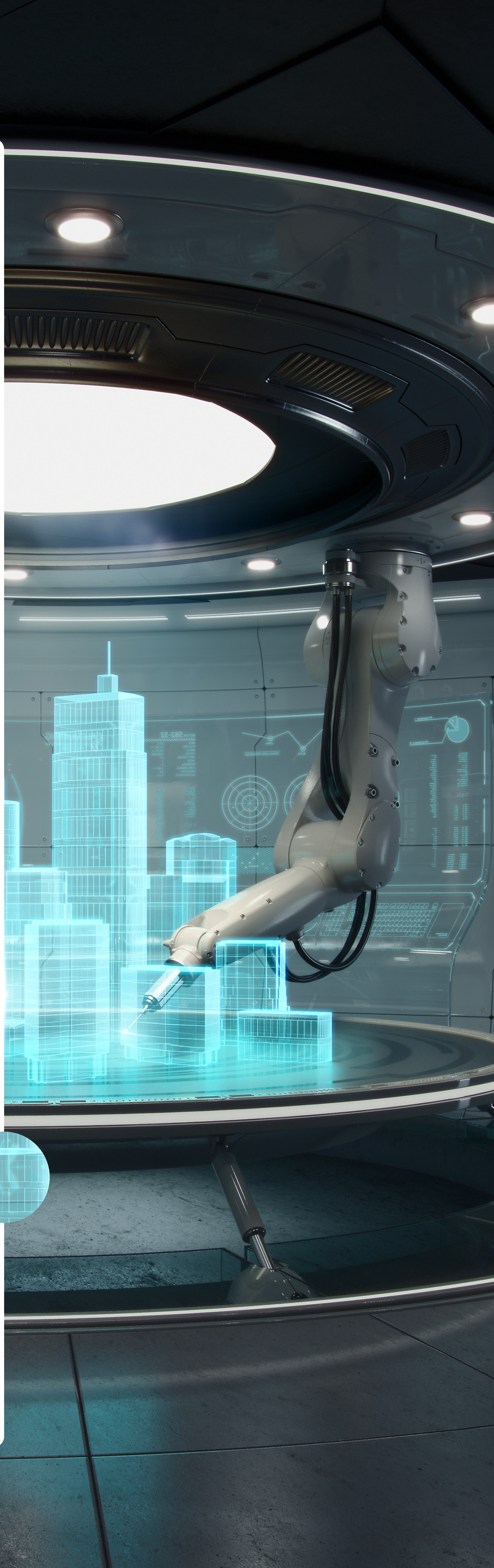
CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Innovation: a true value creator

60 seconds with the fund manager



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This marketing communication is intended for non-professional investors.

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60 SECONDS WITH THE FUND MANAGER

Innovation is the best corporate strategy for creating a sustainable competitive advantage and for driving future growth and profitability. Geoffroy Goenen and Antoine Hamoir believe that successful innovators have the ability to lead their industry, outclass the competi tion and exceed financial expectations

Why should a strategy focused on innovation interest investors?

We think that from an investment perspective innovation now outranks quality and service, which are no longer differentiating factors. Quality and service, although still important, of course, are only prerequisites for doing business nowadays.

In today's globalised business environment, we see a shortening of the product lifecycle, the growing customisation of demand, and digitisation. The most successful companies are radically changing their business models to face these challenges.

Innovation gives a sustainable competitive advantage, drives future growth, increases profitability and is, we believe, the best corporate strategy to perform well on a long-term basis. Successful innovators rise to the forefront of their industries and tend to exceed financial expectations by out smarting their competitors.

From an investor's perspective, a diversified portfolio of innovative companies is attractive because it has the potential to perform well-over any economic cycle.

How do you define and identify innovation?

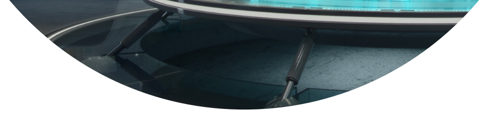
There is no single definition of innovation, but it can be seen as a process that converts new ideas into commercial value. Innovation takes many different forms depending on the industry sector, but we have identified a framework with three types of innovation that are common to all sectors.

The most obvious is product innovation. This could be a product that is new, redesigned or substantially improved, perhaps on the basis of a new technology.

Less easy to identify is process innovation. That is, how the product is delivered or how the company is structured. An example is modularisation of design and production, enabling lower costs, higher flexibility, better quality and a wider customer choice.

Less tangible still is marketing innovation. Innovation in brand strategy and market positioning might change how products or services are offered, resulting in improved market coverage.

Companies in the portfolio should all innovate in products, process or marketing. Innovative companies are those that take a deliberate decision to change a market and to put coordinated creativity at the heart of their culture. This means innovation is not restricted to the R&D department, but is part of a company's DNA, from board level to staff members.



Can innovative companies deliver from a financial perspective?

The lessons of the tech boom that ended in the early 1990s were that not all innovative technology companies succeeded in creating sustainable business models.

To avoid such pitfalls, our stock-picking process seeks companies boasting solid financial and non-financial fundamentals in addition to their innovative qualities.

We carry out extra-financial analysis in order to better understand the risks and opportunities associated with ESG criteria[(1)] 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 exclude companies that fail to meet the 10 Principles laid out in the United Nations' Global Compact, as well as controversial activities such as arms, tobacco, thermal coal and other businesses we consider unsustainable.

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.

This process ultimately enables us to reduce the investment universe[(2)] by 20% or more.

In which sectors do you find most innovation?

There is no doubt that innovative trends are found in some sectors more than others. An innovation strategy will naturally over weight chemicals, healthcare, IT, industrials and certain consumer segments, which have relatively high R&D intensity and inno vation success. On the other hand, financials, energy, utilities and telecoms are more commoditised sectors where innovation is often secondary to economies of scale, cost leadership, regulation and geographical barriers to entry.

Investing in companies that create value from innovation results in some portfolio style biases and characteristics. The portfolio will be most exposed to midcap, growth and quality factors. However, the high active share and exante tracking error of our portfolio shows that an innovation strategy is substantially different from a benchmarked strategy.

How do you search for innovative companies with strong fundamentals?

While we are convinced that innovation allied to a good business model can provide outperformance, it is far from easy to identify the sources of this potential outperformance.

It requires a disciplined approach to identify and measure innovation and ally this to fundamental assessment and skilled portfolio management. Only experienced sector specialists are able to find real value because product innovation in cyclical sectors, for example, is very different from product innovation in pharmaceuticals.

Each member of our fundamental equity team has covered the relevant sector for at least 10 years. Each understands a company's financial profile and the relevant market drivers. They have the skills and the tools to create proprietary financial models in order to estimate a company's intrinsic value. Management at most companies claims it is innovative, so experience is required to employ the necessary scepticism to sort the wheat from the chaff.

For which types of investor is an innovation-based equity strategy most appropriate?

The strategy's quality bias and focus on delivering alpha means it should outperform over both the medium and longer term. Over a full economic cycle, investors can expect substantial outperformance. The performance track record shows that we can differentiate ourselves from our peers in the active equity space.

The strategy is designed to be attractive to retail investors looking for quality buy-and-hold equity investments and who are less focused on benchmark tactics such as trying to beat the MSCI Europe on a day-to-day basis. For this category of investor, the strategy could be a core element of the portfolio.

For institutional investors, the strategy is likely to add value to a satellite portfolio, such as the long-term alpha bucket.

(1) The ESG analysis described above is applied to 90% min. of the investments within the strategy, apart from cash deposits, liquidities and index derivatives.
(2) 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/

The main risks of the strategy are:

• Risk of capital loss:

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

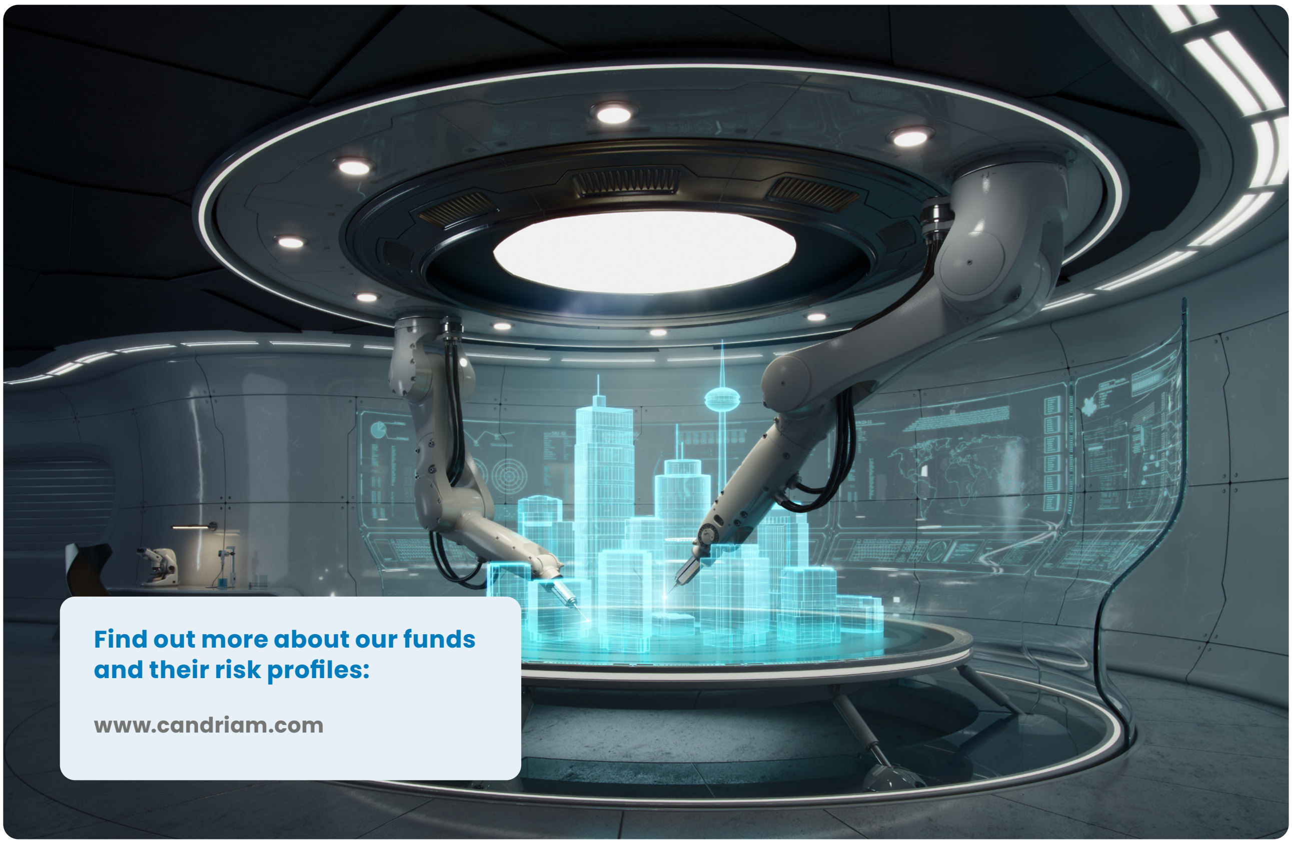
• Foreign exchange risk:

Foreign exchange risk derives from the strategy's direct investments and its investments in forward financial instruments, resulting in exposure to a currency other than its valuation currency. Changes in the exchange rate of this currency in relation to that of the strategy may negatively affect the value of assets in the portfolio.

• Equity risk:

Some strategies may be exposed to equity market risk through direct investment (through transferable securities and/or derivative products). These investments, which generate long or short exposure, may entail a risk of substantial losses. A variation in the equity market in the reverse direction to the positions can lead to the risk of losses and may cause the performance to fall.

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



Find out more about our funds and their risk profiles:

www.candriam.com