



Statement on principal adverse impacts of investment advice on sustainability factors

1. Introduction

As part of its advisory activity, Candriam takes into consideration, in its investment advice, the principal adverse impacts – PAI - on sustainability factors.

In this document, Candriam describes, in accordance with Article 4, §5, a of the SFDR Regulation, the process followed by its financial advisers to select the financial products on which they provide advice.

As part of the structural advisory activity, the client remains free to follow or not the investments recommended by Candriam, the concrete consideration of the PAI during the investments will be determined by the client.

The process described in this document applies only to investments initiated by Candriam.

2. Description of principal adverse sustainability impacts

Candriam considers PAIs in its investment process, through the following means: (1) our exclusion policies; (2) Candriam's proprietary ESG analysis and rating framework; (3) and engagement with issuers as well as the exercise of voting rights.

The ESG Investments & Research Team has developed its own holistic ESG research methodology for both corporate and sovereign issuers. Each issuer is analysed from many environmental, social and governance perspectives leading to ESG recommendations and ESG scorings that consider the PAI of issuers on sustainability objectives. These are being used across Candriam in investment strategies in different ways.

The ESG Analysts use internal and external research to feed their models.

The Team strives to draw information from diverse sources as we consider information from different providers to be complementary. This is as a result of providers' varying coverage and methodologies, as well as a culture that may ultimately lead to discrepancies in views and final ratings. These different assessments provide our ESG analysts more holistic view of a company.

Candriam's ESG analysis team takes into account major sustainability trends as well as challenges specific to different sectors and regions. The process of ESG analysis and monitoring of violations of international standards, which underpins Candriam's internal ESG rating framework, enables the identification of potential adverse impacts as well as the prioritization in terms of remediation, taking into account materiality of the issue.

The table below shows the sustainability indicators for the PAIs, their integration into the ESG analysis and Candriam's ESG rating framework. This integration is based on the level of materiality or probable materiality of each indicator, also indicated below.

| Indicators for investments in companies | | |
|---|---|---|
| Sustainable development theme | Sustainability indicator for PAIs | Explanation |
| CLIMATE AND OTHER ENVIRONMENTAL INDICATORS | | |
| Contribution to climate change mitigation - Greenhouse gas emissions | GHG emissions (PAI 1) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, Trucost |
| | Carbon footprint (PAI 2) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, Trucost |
| | GHG intensity of investee companies (PAI 3) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, Trucost |
| | Exposure to companies active in the fossil fuel sector (PAI 4) | Integrated into Candriam's ESG analysis and rating framework and average data quality Sources: Candriam, MSCI |
| | Share of non-renewable energy consumption and production (PAI 5) | Integrated into Candriam's ESG analysis and rating framework, but data quality is poor Sources: Candriam, MSCI |
| | Energy consumption intensity per high impact climate sector (PAI 6) | Integrated into Candriam's ESG analysis and rating framework, but data quality is poor Sources: Candriam, MSCI |
| Preserving the natural environment and ecosystems | Activities negatively affecting biodiversity-sensitive area (PAI 7) | Integrated into Candriam's ESG analysis and rating framework, but low data quality Sources: Candriam, MSCI |
| | Emissions to water (PAI 8) | Integrated into Candriam's ESG analysis and rating framework, but low data quality Sources: Candriam, MSCI |
| | Hazardous waste ratio (PAI 9) | Included in Candriam's ESG analysis and rating framework, but data quality is poor. Sources: Candriam, MSCI |



| SOCIAL AND EMPLOYEE-RELATED ISSUES, RESPECT FOR HUMAN RIGHTS AND THE FIGHT AGAINST CORRUPTION AND BRIBERY | | |
|--|---|---|
| No exposure to companies associated with controversial or illegal practices | Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 10) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, MSCI |
| | Lack of processes and compliance mechanisms to monitor adherence to the UN Global Compact principles (PAI 11) | Integrated into Candriam's ESG analysis and rating framework, but data quality is poor Sources: Candriam, MSCI |
| | Unadjusted gender pay gap (PAI 12) | Integrated into Candriam's ESG analysis and rating framework, but data quality is poor Sources: Candriam, MSCI |
| Promoting gender equality | Board gender diversity (PAI 13) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, ISS-Oekom |
| | Exposure to controversial weapons (PAI 14) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam & ISS-Ethix |
| INDICATORS FOR SOVEREIGN & SUPRA-NATIONAL ISSUERS | | |
| The environment | GHG intensity (PAI 15) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, EDGAR |
| Social | Number of investment countries with violations of social standards (PAI 16) | Integrated into Candriam's ESG analysis and rating framework however, data quality is on average Source : Candriam |

Materiality

| | |
|--|---------|
| | High |
| | Average |
| | Low |

Among the main optional adverse impacts, a set of indicators is also assessed and monitored as part of Candriam's ESG analysis and rating framework. These main additional adverse impacts have a variable and disparate impact on different industries/sectors, depending on the ESG specificities of the activities within that industry/sector. Data quality and scope, applicability, relevance and geographical coverage are the determining factors used in assessing the materiality of each PAI indicator.



| Additional indicators for investments in companies | | |
|--|---|---|
| Sustainable development theme | Sustainability indicator for adverse impacts | Explanation |
| CLIMATE AND OTHER ENVIRONMENTAL INDICATORS | | |
| The environment | Investments in companies with no initiatives to reduce their carbon emissions (PAI 4) | Integrated into Candriam's ESG analysis and rating framework, but data quality is poor Sources: Candriam, MSCI |
| SOCIAL AND EMPLOYEE-RELATED ISSUES, RESPECT FOR HUMAN RIGHTS AND THE FIGHT AGAINST CORRUPTION AND BRIBERY | | |
| Social | Lack of human rights policy (PAI 9) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, MSCI |
| Social | Lack of anti-corruption policy (PAI 15) | Integrated into Candriam's ESG analysis and rating framework Sources: Candriam, MSCI |

Materiality

| | |
|--|----------------|
| | High |
| | Average |
| | Low |

In financial and corporate social responsibility (CSR) reports, the available data is subject to quality and accuracy checks by the company's auditors or regulators. However, there are still significant gaps in the availability and quality of information on the PAIs on sustainability. Candriam ensures, as far as possible, the quality of the data, in particular by carrying out due diligence on each ESG data provider it uses. These quality and monitoring checks are designed to verify the adequacy, sufficiency, consistency and accuracy of the data. When new data sources are identified, they are evaluated and submitted to the Sustainability Risk Committee for validation.

Candriam's ESG Investment & Research Team carries out ongoing, rigorous screening of ESG data providers and data quality checks. Furthermore, data quality controls are performed at several levels during each integration and aggregation of ESG data.

Whenever new data sources are identified that could enable Candriam to better measure principle adverse impacts, the ESG Investments & Research Team will perform the required due diligence and analyse the added value in terms of monitoring and measuring these PAIs. As a final step in the due diligence process, the information is conveyed/submitted to the Sustainability Risk Committee for validation.



3. Description of policies to identify and prioritize principal adverse sustainability impacts

a. Governance

Candriam has set up a Company-wide ESG governance structure to ensure appropriate monitoring and information flows with regard to ESG issues and their impacts.

The Group Strategy Committee (GSC), assisted by Candriam's ESG and CSR experts, defines the strategic orientations of investments (from a product and commercial point of view) as well corporate risk as concerns sustainability challenges, risks and opportunities.

The Sustainability Risk Committee, co-led by Candriam's ESG and Risk Management teams, oversees the process of managing the PAIs on the sustainability factors of the companies and countries in which we have invested. This follow-up is based on 3 pillars:

- In terms of Environmental, Social and Governance Risks, presentation of ESG analysis and due diligence, with identification of poor ESG performance and proposals for appropriate action;
- Review and validation of policies (listed below) and processes, including the decision-making process on future actions ;
- Supervision of PAI assessments.

When an ESG breach that could potentially lead to a PAI on a sustainability factor is detected for an issuer, the ESG team proposes appropriate action to the Sustainability Risk Committee for decision, and in some cases escalates directly to the Group Strategy Committee. These actions can take the form of:

- Engaging and initiating dialogue,
- Exclusion, or
- Monitoring.

Key policies :

| Name |
|---------------------------------------|
| Sustainability risk management policy |
| Exclusion policy |
| Engagement policy |
| Climate policy |
| Human Rights Policy |



b. Candriam's Due Diligence process on issuers with regard to adverse impacts

Candriam defines sustainable investing as the integration of environmental, social and governance (ESG) criteria into investment decisions.

Candriam aims to manage the risks and potential adverse impacts of its investments on sustainability, notably through the use of ESG analysis processes and the monitoring of violations of international standards, which determine Candriam's internal ESG rating system.

Candriam has developed structured and consistent analytical processes for assessing the sustainability of companies and sovereign issuers. These processes are described below.

A) Companies

The challenges of corporate sustainability are analyzed from two distinct but related angles: business activities and stakeholder management. Indeed, the ESG analysis aims to assess how companies create value by integrating sustainability into their business activities and, the management of stakeholder interests, and how companies integrate it into their operational and financial management processes. This analysis is complemented by an analysis of exposure to controversial activities and violations of international standards in terms of human rights, labor, the environment and corruption.

An overview of our ESG framework for corporate issuers is presented below:



Our ESG assessment process is based on the following pillars:

- **Controversial activities:** assessment of companies involved in certain activities that are controversial in nature and do not align with highest standards of sustainability.
- **Normative analysis:** assessment of companies that have significantly and repeatedly violated one of the ten principles of the United Nations Global Compact and/or the OECD Guidelines for Multinational Enterprises.
- **Business analysis:** companies are exposed to major long-term ESG trends which can strongly influence the environment in which they operate, and which can shape their future business challenges and long-term growth. We have identified five key sustainability trends: climate change, resources and waste, healthy living and well-being, demographic change, and digitization and innovation.

- Stakeholder analysis: we assess the extent to which each company integrates into its long-term strategy the interests of six stakeholders: investors, human capital, suppliers, customers, society and the environment.
- Dialogue with companies and their stakeholders, and proxy voting, are an integral part of the ESG analysis process, and are essential to our investment process, as they provide additional information on issuers and encourage best practice.

B) Sovereign issuers

Candriam's approach to sovereign ESG analysis is based on four pillars of sustainability: human capital, natural capital, social capital and economic capital. This analysis is coupled with exclusion rules for high-risk regimes and minimum standards applicable to all democracies.

Please find below an overview of the sovereign framework :



The ESG rating of sovereign issuers assesses how well countries perform in four categories of sustainability criteria: human capital, natural capital, social capital and economic capital. Environmental factors play a dominant role in our framework, also influencing a country's rating for human, social and economic capital. The overweighting of environmental aspects is justified by the fact that a country cannot perform well on any front if it faces serious long-term environmental damage. Eventually, these environmental externalities will have an impact on human health, social cohesion and economic capital criteria. All four forms of capital incorporate a wide range of tangible ESG factors, fed by several specialized data providers.

Our ESG analysis of sovereign issuers, which also aims to set minimum standards in terms of democracy and transparency, enables us to identify highly oppressive dictatorial regimes and countries classified as "not free" on the basis of Freedom House's Freedom in the *World Index* and the World Bank's *Voice & Accountability Index* . We are thus reducing our exposure to all countries on the Financial Action Task Force's (FATF) list of high-risk jurisdictions subject to a Call to Action.





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