

60 SECONDS WITH THE FUND MANAGER



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RE-SOURCING OUR PLANET

VINCENT MEULEMAN, Lead Fund Manager, **RUDI VAN DEN EYNDE**, Head of Thematic Global Equity, **JOHAN VAN DER BIEST**, Deputy Head of Thematic Global Equity, **ALIX CHOSSON**, Lead ESG Analyst and **ASTRID PIERARD**, Thematic Global Equity Analyst, explain to investors how an ESG (Environmental, Social, Governance) strategy on the theme of the circular economy can contribute to a more sustainable economy and also have a long-term performance objective.

What is circular economy?

Circular economy is an alternative model to the currently dominant linear economy. Under the linear, or the “take-make-dispose” model, profits are made by exploiting natural resources to manufacture and sell as many products as possible.

The linear economy has been the foundation of economic growth since the 19th century. However, the overexploitation of natural resources combined with the increase in population and world consumption makes this model unsustainable. According to Global Footprint Network, humanity has been living on credit since 22 August 2020. This date marks the day when humanity has consumed all of the resources that the planet can regenerate in the course of a year. At this rate of consumption, it would take 1.6 planets to meet the needs of humanity. Although in 2020 this date will be pushed back by 3 weeks due to the slowdown caused by the Covid-19

pandemic, each year it had moved undeniably closer to the beginning of the year.

The circular economy is a more sustainable approach to our natural resources. The term relates to the concept of the circle of life and energy, which assumes that nothing comes from nothing and nothing is ever wasted. If the human race is to prolong its existence on this planet, it should at least aspire to change its model of existence in the image of nature’s own.

Why launch a circular economy investment strategy now?

Candriam launched its circular economy investment strategy at a time when our living environment is at a bigger risk than ever before, with the European Union producing more than 2.5 billion tonnes of waste every year and very little of it reused. There are already reports of an 8th continent made of plastic floating in the middle of the North Pacific.

The situation continues to deteriorate and, if we do nothing, by 2050 we will need three planets to provide for the needs of humanity. Faced with these challenges, circular economy can provide solutions to reduce both overexploitation of natural resources and pollution. This can be achieved if all stakeholders make an effort, with pressure from public opinion, consumer demand and political will to act.

Investing in a circular economy offers the opportunity to contribute to the development of a more sustainable economic model as well as making investment opportunities for the future. According to recent assessments, circular economy represents a potential market of \$4.5 trillion⁽¹⁾.

Candriam plays its role as a pioneering asset manager focusing on Environmental, Social and Governance (ESG) factors by offering investors access to opportunities within this transition.

(1) Accenture, “Waste to Wealth: Creating advantage in a circular economy”, 2015

How do you find investment opportunities?

We have identified two categories of companies that take important part in building circular economy of tomorrow:

- **Enablers** are companies that provide innovative solutions, through their technologies, products or services, to enable other companies to avoid or minimise resource use and waste generation. Their solutions are the 4 Rs:
 - **Replace:** by favouring renewable resources including biomass, wind and solar power
 - **Repurpose:** by extending the life cycle of products (second-hand market, repairs, etc.)
 - **Recycle:** by recovering materials including plastic, paper, wood, glass and metal
 - **Rationalise:** by increasing the utilisation rate on goods and services, such as co-working, sharing platforms and renting
- **Transformers** are companies that adapt their value chains to become more circular, with the aim of providing products or services that help consumers reduce their impact on the environment. A company's level of circularity is determined by the flows in and out of its supply chain. An example of this would be a footwear manufacturer whose raw material is derived from the recycling of plastic waste (circular inflow) and the footwear produced, which, at the end of its life, can be reused to build new models (circular outflow).

We have set up a Circular Economy Committee, made up of five experts who help us identify companies oriented towards the circular economy. This team also relies on an advisory committee made up of independent experts to better understand all the issues related to circular economy and the breakthrough solutions available to help meet this challenge.

Where do you find the best examples of companies contributing to the creation of circular economy?

Material recycling, wastewater reuse, bio-waste, renewable energies, sharing platforms, circular supply chains, second-hand markets, renewable or recycled resources are only a few examples of the types of companies offering solutions to foster the transition to a circular economy, contribute to a zero-waste society and ultimately reduce the environmental impact. Within these areas, we look for companies that reduce and avoid the use of unused raw materials and landfill waste sites, thereby reducing the environmental footprint of products consumed.

We therefore invest in companies of all sizes, without regional or sector constraints, in a wide variety of industries.

How do you select the companies in which you invest?

Our investment process and analysis are based on three types of criteria that helps us select companies: thematic, fundamental and valuation. A thematic framework allows us to build our investable universe with companies classified either as enablers or as transformers. We have developed a proprietary tool to identify companies that contribute tangibly and positively to the transition towards a circular economy.

We then conduct an extra-financial analysis to better understand the risks and opportunities related to ESG criteria⁽¹⁾. We assess the exposure of companies' activities in relation to major sustainability themes and stakeholder management. We exclude companies that do not comply with the ten United Nations Global Compact Principles, as well as those involved in controversial activities such as arms, tobacco, thermal coal and others that we consider unsustainable. This process⁽²⁾ ultimately enables us to reduce the investment universe by 20% or more.

We then analyse each company in this universe in depth according to five fundamental criteria combining financial and "extra-financial" analysis (see above), such as management quality, growth potential, competitive positioning, high profitability and low debt.

Finally, we carry out a valuation of the selected companies and select those that we believe have long-term upside potential in order to build a diversified quality portfolio.

What makes Candriam different in this approach?

As a responsible investor, Candriam has ESG expertise combined with over 25 years of thematic investment management know-how. This has helped us to develop a distinctive investment style that selects companies whose objective is to play a significant role in the transition to a circular economy.

This approach also represents an investment opportunity. Companies that are able to meet these challenges and provide real solutions will, in our opinion, see their business grow, and ultimately become winners in the long term. Finally, to put an end to the era of waste and wastefulness, Candriam is committed to donating a maximum of 10% of its net management fees to institutions and non-profit organisations that develop solutions for the transition towards a circular economy.

FIND OUT MORE ABOUT
OUR FUNDS AND
THEIR RISK PROFILES:



www.candriam.com

(1) The ESG analysis described above is applied to at least 90% 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.com/siteassets/medias/publications/sri-publications---candriam-policies/exclusion-policy.pdf>