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CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

ESG Integration Policy

Introduction.

Our planet and society are undergoing structural transformations and facing long-term challenges that result in physical sustainability risks as well as transition risks. In turn, these risks can potentially have financially material repercussions on investment portfolios. For example, the erosion of biodiversity can impact the access to clean water, which is essential for companies in several sectors to operate their production processes. Similarly, issuers that do not adapt to evolutions in environmental or social standards may see tangible consequences for their reputations, operations and ultimately their valuations. At the same time, sustainability challenges also open up opportunities for issuers and, consequently, potential pockets of growth for investors to capture. For instance, companies developing solutions in areas such as climate change adaptation or resource management, or those addressing the world's demographic evolution or prevalent health challenges, may see increased demand. Integrating ESG into investment considerations may allow investors to understand such sustainability risks that can potentially impact their portfolios in a material way, as well as to identify potentially interesting investment opportunities.

Moreover, many investors are concerned with the move towards more sustainable and inclusive socio-economic development that strengthens the resilience of the global economy. Here, financial markets in general and investors in particular can play a pivotal role by financing issuers and activities that support this type of economic growth and foster innovation.

Therefore, an essential question for investors is: How to integrate ESG considerations to understand and manage the effects of sustainability challenges on portfolios, and to understand and manage the effects of investments on our planet and society?

Table of contents.

1. Sustainability @ Candriam

The complex interplay between, on the one hand, sustainability-related risks and opportunities that investment portfolios can be subject to and, on the other hand, economic development, benefits from a broad, holistic view.

Candriam, whose name is an acronym that stands for **C**onviction **and** **R**esponsibility in **A**sset **M**anagement, is fully committed to ensuring that our clients' investment portfolios benefit from wholistic risk management and fundamental analysis. Our name articulates a clear message to our clients, the investment community and society. As an active and sustainable asset manager, we consider that the integration of environmental, social and governance (ESG) issues is a central part of sustainable investment strategies across all asset classes in order to create sustainable long-term value for our clients.

In fact, Candriam has been at the forefront of sustainable investing ever since launching its first responsible fund back in 1996, delivering financial performance on the back of deeply rooted sustainability expertise for over two decades. We offer a broad range of sustainable investment strategies spanning equities and fixed income, corporate and sovereign instruments, both in the active as well as passive space.

Candriam's dedicated ESG Research & Investments Department provides in-depth evaluations of corporate and sovereign issuers' sustainability, as well as sector-specific ESG analysis and fundamental research related to sustainability issues. In addition, our dedicated engagement and voting team carries out carefully coordinated, impactful engagement and voting campaigns.

The results of our sustainability assessments and engagement and voting campaigns are powerful levers for more informed stock valuations, credit analysis and investment decision-making. Candriam's proprietary framework for the assessment of the sustainability of issuers and the processes for integrating these assessments into investment strategies according to a multi-layered approach are described in the sections that follow.

2. ESG assessment

In-depth assessment of issuers' sustainability and its materiality for financial returns is the cornerstone of sustainability at Candriam and the foundation for integrating sustainability into our investments.

Through its over 25 years of experience in investing with ESG considerations, Candriam has developed proprietary ESG analytical frameworks. Candriam's proprietary corporate ESG analytical framework evaluates the sustainability of corporate issuers of equities and bonds, including covered bonds. The sustainability of countries is assessed through Candriam's proprietary sovereign ESG analytical framework. Further, Candriam has developed an ESG approach for evaluating supranational organisations and agencies.

Our ESG analytical frameworks are designed to provide a **materiality-based**, and **forward-looking** assessment of sustainability across a broad range of issuers.

For corporate issuers, our ESG framework reflects our conviction that the relevance or analytical **materiality** of different stakeholders and key sustainability challenges varies across companies, depending on the specificities of their sector. Similarly, for sovereign issuers, the framework recognises that different ESG themes, factors, and indicators can have varying analytical materiality depending on a country's current and future sustainability profile. This approach enables us to incorporate sector- and country-specific circumstances into our analysis.

Our analysis integrates a **forward-looking perspective**, evaluating how sustainability trends may influence socio-economic systems and issuer performance over time. This is achieved through several means:

- First, our analysis involves the identification of structural ESG trends i.e. Candriam's "Key Sustainability Challenges – KSCs" such as overexploitation of resources and climate change, in the corporate ESG framework and an assessment of how issuers are positively and/or negatively exposed to these challenges.
- Secondly, Candriam's analytical frameworks integrate the double materiality principle for assessing corporate and sovereign issuers. This means that,
    - On the one hand, Candriam evaluates and integrates the particular materiality of environmental and social issues and ESG trends and how the risks and opportunities stemming from those trends could negatively respectively positively impact corporate and sovereign issuers in the short and long run, and as a consequence financial return for investors.
    - On the other hand, Candriam analytical ESG framework assesses how its exposure to issuers could adversely impact the environment and society.

  As a result, Candriam's ESG models incorporate its assessment of the specific likelihood that trends will impact the sustainability of sectors and/or countries.
- Lastly, we seek to identify and use future-forward indicators and data points from a multitude of sources in our ESG analysis, including the information retrieved from our stewardship activities.

These analytical frameworks are described in detail in the sections that follow.

2.1. Candriam's proprietary corporate ESG analytical framework

Candriam's proprietary corporate ESG analytical framework enables us to conduct in-depth research into the sustainability of companies. The outputs of this analysis are used to inform investment decisions pertaining to equities as well as corporate fixed income, including covered bonds.

This analysis is carried out by Candriam's corporate ESG Analysts, who are experts in different sectors and ESG themes. They work closely with Candriam's Engagement & Voting Analysts, whose insights, gained through dialogue with issuers and voting campaigns, also serve to enrich the evaluation of companies.

Candriam's forward-looking corporate ESG analytical framework comprises five dimensions structured as follows:

- **Two analytical steps resulting that can result in Exclusions**
  - **Controversial Activities Analysis:** We analyse companies' exposure to activities that do not embody sustainability
  - **Norms-Based Analysis:** Companies' compliance with international norms such as the UN Global Compact is examined in detail

- **Two analytical steps resulting in ESG Ratings**
  Candriam's proprietary ESG analysis is based on the unique combination of Business Activity Analysis and Stakeholder Analysis, allowing for a comprehensive, analytical materiality-based and forward-looking assessment of companies' sustainability.
  - **Business Activities Analysis:** We assess company exposure to five key sustainable challenges central to Long-Term Sustainability.
  - **Stakeholders Analysis:** Companies are evaluated on their management of six types of stakeholders.

- **Engagement, comprising Dialogue and Proxy Voting**

Each of these pillars of our **propriety ESG analysis** is described in detail below.

<u>Two analytical steps resulting that can result in Exclusions</u>

Candriam conducts in-depth analysis into corporate issuers' alignment with international norms and conventions and examines involvement in controversial activities. This screening is an important component in the identification and reduction of sustainability-related risks and the adverse impacts and damage companies may inflict on environmental and/or social issues.

1. Controversial activities analysis

Candriam's in-depth analysis of controversial activities[1] allows for the identification of companies that carry out activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. In fact, exposure to these activities presents important systemic and reputational risks for the companies from an economic as well as environmental and social point of view.

2. Norms-based analysis

Candriam conducts in-depth research into corporates' compliance with international norms and standards. For example, we identify issuers that breach any of the ten principles of the United Nations Global Compact or the guidelines for multinational enterprises defined by the OECD.

Accordingly, this analysis covers the following areas: Human Rights, Labour Rights, Environment and Anti-Corruption.

Two analytical steps resulting in ESG Ratings

Candriam has developed a structured and consistent approach enabling the assessment of risks and opportunities that stem from the business activities and operations of companies. This process identifies and analyses sustainability-related risks and opportunities, and companies' contributions to sustainability objectives from two distinct but interlinked angles: Business Activities and Stakeholder Management. Both analyses are designed to assess companies' ability to contribute to sustainability objectives now and in the future and to identify those companies whose activities or stakeholder management could cause harm to environmental and/or social objectives over the short and long term.

ESG trends and challenges, like global warming and the depletion of natural resources, test the resilience of financial and economic systems and of the companies that operate in them. At the same time, they also offer opportunities to foster innovation by investing in companies that create solutions to alleviate or solve these challenges. This goes beyond environmental matters and includes the social and governance dimension of corporate behavior. This wholistic consideration of ESG factors reflects our conviction that specific environmental, social and governance issues are being and/or will be priced by financial markets participants due to policy, technological and/or societal change.

3. Business Activity analysis

Companies are exposed, through their business activities, to structural, long-term Key Sustainability Challenges that can strongly influence the environment in which they operate and may create long-term risks or growth opportunities. Likewise, companies, through their activities, contribute positively or negatively in addressing these long-term Key Sustainability Challenges. Based on more than 25 years of ESG expertise, Candriam has identified five Key Sustainability Challenges that are likely to reshape the functioning of our economies: Climate Change, Resources Depletion, Digitalisation, Health & Wellness and Demographic Evolution.

In order to conduct this analysis, we first conduct a materiality assessment at sector level that allows to determine the importance and by consequence the weight of each Key Sustainability Challenge for a given sector. Various sectors will face different sustainability challenges and different exposures to potential disruption. These risk and opportunities, as well as the way they impact sectors, are taken into account in this part of Candriam's ESG analysis. We then score the contribution of each of the more than 1,200 business activities covered in our ESG model to the relevant Key Sustainability Challenges from 0 (strongly detrimental) to 100 (strongly contributing), based on scientific reference and academic and industry expert knowledge.

A company's overall Business Activity Score will be the weighted average (based on revenue breakdown) of each of its business activities' contribution to the Key Sustainability Challenges that are relevant for its sector. This overall Business Activity Score at company level ranges from 0 (strongly detrimental) to 100 (strongly contributing) and reflects whether the company's activities are contributing to and being impacted positively or negatively by sustainable development.

This analysis produces both qualitative and quantitative insights on companies, each of which receives a Business Activity Score. These outputs are used in ESG integration, as described later in Section 4 of this document.

4. Stakeholder Analysis

The way companies manage their relationships with their stakeholders gives rise to sustainability-related risks and opportunities that are determinants of resiliency and can impact companies' long-term growth and value. How a company manages its stakeholders, i.e., takes into account their long-term interests in its strategy and operations, is essential in assessing whether a company conducts its activities in a sustainable and responsible fashion.

Candriam identifies six key stakeholder groups essential to corporate sustainability: Environment, Society, Investors, Employees, Suppliers, and Customers. Each group can be impacted by

corporate behavior, both now and in the future.

Our analysis starts with a materiality assessment at sector level that identifies and weighs the importance of each stakeholder to the company's ability to create long-term value. This assessment is based on sector and company reports as well as on research by non-governmental organisations (NGOs), where relevant.

Each company is evaluated on its ability to manage the interests of those stakeholders that are relevant to its sector. This assessment is conducted stakeholder by stakeholder, by carefully selecting the most relevant criteria and KPIs. A 0 to 100 rating will be given on each relevant criterion, then aggregated at stakeholder level, and then computed at company level, based on the importance (and associated weight) of each stakeholder.

Each company will thus obtain an overall Stakeholder Score between 0 (very poor management) to 100 (best possible management), that reflects how it treats its stakeholders.

The outputs of the stakeholder analysis are qualitative and quantitative insights into companies' sustainability, as well as a Stakeholder Score for each company. These outputs are used in ESG integration, which is described later in this document in section 3.

Candriam's Business Activity Analysis and Stakeholder Analysis allow for a comprehensive coverage of E, S, and G factors across all sectors and industries applying the double materiality principle:

- **Environmental** considerations undergo a comprehensive evaluation through:
  - Business Activities Analysis, notably via the following KSCs:
    - Climate Change (e.g., level of GHG emissions, level of progress on decarbonisation pathway)
    - Resource Depletion (e.g., impact on availability or scarcity of resources in our ecosystem)
    - Digitalisation (e.g., digitalisation of processes that delivers clear benefits to the environment)
  - Stakeholder Analysis, notably via:
    - Environment (e.g., environmental policy, including GHG reduction programme, land use and biodiversity, disposal, and recycling)

- **Social** considerations are evaluated through:
  - Business Activities Analysis, for instance through the following KSCs:
    - Health & Wellness (e.g., ensuring healthy lives and promoting well-being for all at all ages)
    - Digitalisation (e.g., digitalisation of processes that delivers clear benefits to society and the economy)
    - Demographic Evolution (e.g., aging population and other changing trends in global human population including specific sub-groups (young, elderly population, etc.) across various locations (countries, regions, urban rural, etc.).
  - Stakeholder Analysis, via:
    - Employees (e.g., recruitment & retention, working conditions, staff relations)
    - Customers (e.g., commercial practices, quality & safety assurance, community relations)
    - Suppliers (e.g., practices of suppliers)

  With regards to social considerations, the Business Activity and Stakeholder Analyses also allow us to evaluate the extent of a company's exposure to Human Rights risks and its capability in preventing, addressing, mitigating and remedying Human Rights impacts arising from its business operations. Please find below a few examples of analytical focal points pertaining to Human Rights:
  - Human capital management (labour structure, location of operations, employee turnover rates)
  - Controversial raw materials (policy management and commitment on sourcing materials, responsible sourcing mechanisms, transparent reporting on findings or flagged issues)
  - Customer-related matters (product quality & safety, data privacy & security)

- Corporate governance (board commitment, oversight and monitoring on Human Rights, code of conduct, human rights policy, modern slavery statement, etc.)

- **Governance** considerations are assessed through the:
  - Stakeholder analysis, via

  Investors (e.g., board structure, auditors' rotation, remuneration, share capital, etc.)

Engagement (Overarching Dimension)

In addition to the positive and negative selection described above, Engagement is a key part of our long-term investment process, given its potential impact on investor returns. Candriam engages with the management of its investment candidates on a range of aspects. Engagement takes the form of a direct and individual dialogue between ESG analysts and the representatives of the company and other stakeholders.

Candriam's voting policy favours resolutions that support sustainable development principles in accordance with its Sustainable and Responsible approach. As a pioneer in ESG, we also encourage sustainable development in the financial markets by sharing our expertise with customers, the media, and the broader financial community through conferences, working groups, and educational initiatives.

Our proprietary ESG analysis (positive screening) is applied through two distinct but interconnected processes:

- **Overall ESG assessment:** Firstly, our analysis allows for an evaluation of the overall sustainability of issuers, which results in an overall ESG Rating for each issuer.
- **Specific E/S contribution assessment:** Secondly, Candriam uses specific elements of its ESG analytical framework in a dedicated process for assessing contributions to Environmental and/or Social objectives, which results in an **Environmental Contribution Score** and/or **Social Contribution Score** for each issuer

Overall ESG assessment

Together, the Business Activities Score and the Stakeholder Score determine an overall ESG Rating for each issuer.

For each sector, a different level of materiality, i.e. importance (and thus weight), is given to the Business Activity and Stakeholder Analysis dimensions, depending on whether it is the sustainability of activities or the responsibility of practices that are key in determining companies' sustainable performance. A company's ESG Rating is determined by the materiality- weighted combination of its Business Activity Score and its Stakeholder Analysis Score. The ESG Rating can range between ESG1 (sustainability leader) to ESG10 (sustainability laggard / detrimental). An illustrative example of our ESG Ratings universe is shown below.

ESG Rating

- **Specific E/S contribution assessment**

Candriam has developed a process for assessing and scoring companies' contributions to Environmental and Social objectives, resulting in Environmental (E) and Social (S) Contribution Scores. This process integrates Business Activity Analysis and Stakeholder Analysis to evaluate sustainability and responsibility.

For **Environmental (E) contributions**, Candriam examines companies' roles in addressing Climate Change and Resource Depletion through their business activities and their management of Environmental impacts on stakeholders.

For **Social (S) contributions**, Candriam assesses how companies address Key Sustainability Challenges like Health & Wellness and Digitalisation through their business activities and stakeholder management, particularly focusing on employees and suppliers.

The Environmental/Social Contribution Score, ranging from 0 to 100, combines scores from the Business activity and Stakeholder analysis.

These E and S Contribution Scores determine if companies qualify as 'Sustainable Investments' under the SFDR. Companies must meet a minimum score of 50 in either or both categories and comply with overall ESG Ratings, the Do No Significant Harm (DNSH) principle, and Good Governance criteria. Depending on the sector, companies are evaluated for their Environmental, Social, or combined contributions to determine their eligibility for sustainable investment.

2.2. Candriam's proprietary sovereign ESG analytical framework

Candriam's proprietary sovereign sustainability analytical framework has been built to provide in-depth assessments of the sustainability of countries, which in turn can affect their ability and willingness to make good on their debt. Importantly, the sovereign sustainability model is forward-looking: It examines the upward or downward trends in countries' ESG performance and incorporates indicators focused on the likely direction of travel of countries' sustainability going forward. Further, the model is

materiality-based, meaning that it assesses the relative importance of each ESG trend, theme, and indicator for the current and future sustainability of different countries.

Candriam's sovereign sustainability framework is structured around the following pillars:

I. **Sustainable development criteria**
II. **In-depth negative screening**

These pillars are described in detail below.

I. Sustainable development criteria: Human Capital, Natural Capital, Social Capital, and Economic Capital

These four capital domains are each decomposed into several components, which in turn are broken down into underlying issues. Each issue incorporates a wide range of ESG factors that capture both short-, medium-, and long-term issues, challenges and/or opportunities and are updated at varying frequencies, depending on the nature of the information. In total, our framework considers more than 400 individual factors. These factors are evaluated using our internally defined Key Performance Indicators (KPIs). This generates a dynamic capital-based analytical tree, which covers the sustainable development challenges and opportunities faced by each nation.

While all countries are analysed using the same capital domains, components, issues, and factors, the relative importance of each of these elements is calibrated to the specificities of each country and hence to their particular relevance for the specific country's current and future sustainability. In fact, our assessment of analytical materiality evaluates the relevance of each factor for each country at every level of development and point in time over the last 10 years.

Examples of the matters examined and types of KPIs used in the evaluation of the four domains of sovereign capital are provided below:

- **Natural Capital**

  Our Natural Capital KPIs are designed to assess how a country conserves and sustainably employs its natural resources. We evaluate how a country manages its interactions with global environmental challenges such as climate change, consumption of resources, stewardship of biodiversity, and waste handling.

- **Human Capital**

  Our KPIs in the Human Capital domain assess economic and creative productivity, by evaluating education and skill levels, innovation, health, labour participation rates and employment ratios, among other sustainability themes.

- **Social Capital**

  Social Capital indicators evaluate civil society and state institutions, including transparency and democracy, government effectiveness, corruption, inequalities, and the populations' level of security. We monitor respect for human rights and civil liberties (freedom of expression and belief, associational and organisational rights, personal autonomy and individual rights, and minority rights), primacy of the rule of law and absence of corrupt practices, as well as good democratic governance (democratic accountability, political stability, government effectiveness, and judicial effectiveness).

- **Economic Capital**

  In the Economic Capital domain, we conduct an assessment of a country's economic fundamentals, in order to measure each government's ability to finance and support sustainable policies over the long run.

Our analysis results in a Human Capital Score, a Natural Capital Score, a Social Capital Score and an Economic Capital Score.

Importantly, our sovereign analytical framework reflects the urgency of dealing with the environmental challenges that our world faces, as well as the fact that Natural Capital is finite and cannot be replaced by other forms of capital. Therefore, in a second step, the Human, Social and Economic Capital Scores of each country are each multiplied by the country's Natural Capital Score. Thus, we obtain environmentally weighted Human, Social and Economic Capital Scores, which reflect how environmentally efficient a country is in developing its Human, Social and Economic Capitals. As a third step, the overall sustainability rating of a country is computed: It is the average of the three environmentally weighted capitals. Countries are ranked according to this arithmetic average.

Our sovereign ESG analytical framework embeds the UN Sustainable Development Goals (UN SDGs), which are covered through the four sovereign capital domains, as shown in the chart below:

II. **In-depth negative screening**

An in-depth negative screening is performed in order to identify high-risk regimes and check for minimum standards of democracy, using the following criteria:

- Freedom House's Freedom in the World Index – states that are considered 'Not Free'
- Candriam's Highly Oppressive Regimes List – severe human rights violators
- Financial Action Task Force's Call for Action List – state sponsors of terrorism

In addition, discretionary exclusions can be applied to countries that are violators of international agreements or are likely to experience a material deterioration of their sustainability status, but such violations or deterioration are not yet reflected in the available data.

Based on the two pillars described above, Candriam's sovereign ESG analytical framework allows for an in-depth analysis of E, S, and G factors:

- **Environmental** considerations undergo a comprehensive evaluation through the analysis of:
  - Natural capital, which evaluates how a country positively or negatively contributes to global environmental challenges. Themes examined include climate change, resource management, stewardship of biodiversity, and waste handling.
  - Economic capital, which assesses how a country manages its transition to a Net Zero Carbon economy and trade sustainability, that is the carbon intensity of trade flows.

- **Social** considerations are evaluated through the analysis of:
  - Human capital examines for example education and skill levels, innovation, health, labour participation rates and employment ratios, among other sustainability themes. Labour rights, such as decent working conditions, absence of forced, child and slave labour, as well as the prevalence of discriminatory labour practices are monitored within Human Capital.
  - Social capital, which evaluates civil society and state institutions of each nation, including transparency and democracy, government effectiveness, corruption, inequalities, and populations' level of security. Freedom of Expression and Belief, Freedom of the Press, Freedom of Opinion and Expression, Human Rights & Civil Liberties, Associational and Organisational Rights, Freedom of Assembly, Freedom of Association and Collective Bargaining, Personal Autonomy and Individual Rights, Land, Property and Housing Rights, Right to Privacy, Security Forces and Human Rights, Torture and other Ill-Treatment, Minority Rights, Sexual Minorities, Women's and Girls' Rights are all metrics that are considered in the Social Capital analysis and are pertinent to broad adherence to Human Rights norms on the part of investee countries.

- **Governance** considerations are assessed through the examination of:
  - Economic capital, which measures each government's ability to finance and support sustainable policies over the long run.

2.3. Candriam's ESG approach for supranational organisations and agencies

Candriam conducts a norms-based analysis of supranational issuers and agencies. The purpose of this analysis is to determine whether or not a supranational entity or agency observes the ten principles of the United Nations Global Compact across four key domains: Human Rights, Labour, Environment, and Anti-Corruption. The analysis aims to identify supranational entities or agencies that significantly and repeatedly fail to uphold these principles.

2.4. Scenario analysis

1. General ESG scenario analysis at Candriam level

Candriam's Group Strategic Committee (GSC) regularly assesses the sustainability challenges and trends that the company is exposed to, in order to determine how Candriam should manage its stakeholder relations and how it should attune its business model and asset management practices to these long-term challenges and opportunities.

Candriam's Sustainability Risk Committee (SRC), reporting directly to the GSC, specifically assesses sovereign and corporate reputational and financial risks related to sustainability, including climate risks, and defines a company-wide corporate and sovereign issuer watch list. To this end, scenario analyses are carried out to assess risks and apply strategies and policies to reduce them.

Based on the temperature scenarios of the Paris Agreements, we committed in 2021 to achieve net zero across our activities by 2050.

We continuously assess whether companies and their activities align with long-term sustainability goals, particularly in high-impact sectors like oil, gas, and energy. We have set particularly rigorous expectations for these sectors and in the past have generally only included a very limited number of companies, as a result of our strict ESG ratings framework. As a result of this approach and after a long and thorough vetting process, often including direct dialogue, we can deem certain companies incompatible with our best scenario analysis and the high standards of sustainability we set for Candriam's sustainable portfolios.

2. ESG scenario analysis in Candriam's ESG corporate analytical framework

Scenario analysis is also fully integrated into our corporate ESG analytical framework, described in section 3.a. The manner in which such scenario analyses inform the two pillars of the framework - Business Activities Analysis and Stakeholder Analysis – is described below.

Business Activities Analysis

This analysis evaluates a company's exposure (via its services/products, production areas, market segments, etc.) to Key Sustainability Challenges (KSCs). These challenges are long-term trends likely to considerably influence the economic environment in which companies operate and to determine the future challenges in the market as well as the long-term growth opportunities. Using scenario analysis, Candriam has identified five major challenges:

Climate Change:

Failing to limit temperature rises will result in increasingly frequent acute and chronic physical consequences of climate change. In this context, economic activities are confronted with different climate scenarios based on their contribution, positive or negative, to climate mitigation and adaptation.

Resource Depletion:

Many different drivers create pressure on ecosystems, as identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES). The Resource Depletion KSC assesses the extent to which companies' activities contribute positively or negatively to the availability or scarcity of resources in our ecosystem based on their dependency on the availability of resources in our ecosystem; and/or the harmful impacts on biodiversity. It considers every single aspect of companies' impact on ecosystems and the main risks and opportunities linked to the Resource Depletion trend to assess how each company fits into the biodiversity loss scenarios.

Demographic Evolution:

The world's population is growing and is expected to reach nine billion people by 2050. More than two-thirds of the world's population will live in urban areas and an increase in the share of elderly people in the worldwide population is expected.

Considering these major demographic trends shaping our world, to build a sustainable future we must tackle social justice and support companies that help alleviate social inequality.

The Demographic Evolution KSC aims to assess how companies contribute to the challenges and opportunities triggered by changes in the overall human population including specific sub-groups (young, elderly population, etc.) across various locations (countries, regions, urban rural, etc.) and to the different social inequality scenarios induced by it.

Health and Wellness:
Health is defined by a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity (World Health Organisation). We leverage the Global Burden of Disease to inform our scoring of this KSC. It analyses three main categories of risks: environmental, behavioural and metabolic risks which contribute to the disability-adjusted life years. The latter calculates the sum of the years of life lost due to premature mortality (YLLs) and the years lived with a disability (YLDs) due to prevalent cases of the disease or health condition in a population. Thus, this KSC analyses how each company is aligned with the disability-adjusted life years scenarios.

Digitalisation:
Digitalisation is a concrete answer to the fourth Industrial Revolution. This KSC encompasses the infrastructure of the ICT sector, composed of internet networks, electronic equipment and related sustainable applications. Related sustainable applications include smart cities, tele-healthcare, education access via internet and mobile banking services, as well as cyber-security, a necessity to protect customers' data but also to maintain secure management of connected devices.
Through this KSC, we focus especially on the digitalisation delivering clear social and economic benefits based on risk scenarios induced it.

Stakeholder Analysis
Candriam's Stakeholder Analysis evaluates a company's ability to incorporate stakeholder interests in its long-term strategy, insofar as they are a source of risks and opportunities for the company. The six categories of stakeholders include Investors, Employees, Customers, Suppliers, Society, and the Environment.

We determine the relevance of each stakeholder for a sector based on qualitative and quantitative data, determine weights for each category and associate the quality of companies' stakeholder management with different ESG performance scenarios. Our analysis of stakeholder management is forward-looking, considering management trends and their alignment with our best standards.

For instance, we may look at the degree of attention paid to investors; the frequency of certain events such as accidents and fines; the tangible or intangible financial impact of ESG issues, and the outlook and prospects for a company to improve or deteriorate in these measures.

3. ESG scenario analysis in Candriam's ESG sovereign analytical framework

Candriam's sovereign ESG analysis, described in section 3.b, assesses across our four categories of sustainable development criteria: ***Human Capital, Natural Capital, Social Capital*** and ***Economic Capital***. The framework emphasises Natural Capital, by turning it into a multiplier for the other three capitals. In doing so, we create three environmentally efficient capitals in order to reflect the urgency of dealing with the environmental challenges ahead of us. The overall sustainability score of a country is the average of the three environmentally efficient capitals. As a result, it is much harder for a country to compensate for environmental damage by creating another form of capital, as all capital scores will be evaluated through the environmental damage that was done in the creation of Human, Social, or Economic Capital.

These four capital domains incorporate a wide range of more than 480 ESG factors which we evaluate using our internally defined Key Performance Indicators, or KPIs. Candriam establishes a performance score for each factor, incorporating their materiality for the sustainable development challenges and opportunities faced by each specific country. A positive or negative change in an indicator will translate into an improvement or deterioration in the country's development scenarios and a relative increase in the weight of the indicator in question which will become more material. The model is dynamic and focuses on a forward-looking approach.

We always try to base our analyses on reliable independent data from a variety of sources, in order to get a comprehensive picture of each issue. However, information warfare has gradually penetrated a wide variety of media channels. To guard against this, Candriam also incorporates wherever possible, an independent, science-based data from various providers. For example, satellite imagery data of forests can be used to check deforestation statistics and claims.

Finally, our macroeconomic scenario analyses also impact the materiality of ESG indicators, independently of the sustainable development challenges and opportunities faced by each nation. We are constantly seeking to further develop our framework to ensure that our findings accurately reflect the evolving complexity and risks of the global economy.

3. ESG integration

3.1. Incorporation of ESG assessments into investment decisions: Scopes of application

The results of the ESG assessments described above are incorporated into investment decisions in different ways, depending on the investment strategies. Below we detail three scopes of application and the respective channels through which ESG assessments are incorporated.

- **Company-wide exclusions**
  Candriam incorporates the results of the corporate and sovereign ESG analytical frameworks through a set of **exclusions that apply to all investments made by Candriam** via long positions in direct lines in corporate and sovereign issuers and single-name derivatives[2].

  For corporate issuers, these exclusions are the result of our controversial activities analysis and our norms-based analysis. Using specific thresholds, we exclude harmful activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. Exposure to these activities presents important systemic and reputational risks from an economic as well as environmental and social perspective. For example, Candriam excludes controversial armament, tobacco and thermal coal activities from all its directly managed portfolios. These activities are not compatible with sustainability as they compromise public health, the environment and/or life. In addition, for investors, these activities can have an adverse financial impact on invested capital as both regulatory and societal expectations are changing.
  Similarly, Candriam excludes issuers that are embroiled in the most severe violations of the United Nations Global Compact principles. As a company's response to a crisis is a key aspect of the evaluation, dialogue with the company often is an important aspect of the assessment of these violations.

  For sovereign issuers and quasi-sovereign entities, exclusions are applied based on Candriam's in-depth negative screening of oppressive regimes, i.e. countries in which human rights are severely breached on a regular basis, fundamental liberties are systematically denied, and the security of people is not guaranteed due to government failure and systematic ethical breaches.

  For a detailed description of Candriam's company-wide exclusion policy, and the thresholds applied, please refer to the Candriam Exclusion Policy.

- **Investment strategies with ESG integration**
  A part of Candriam's investment strategies are managed with **ESG integration**. This is the case, for example, of some of the strategies classified as Article 8 under the European Sustainable Finance Disclosure Regulation (SFDR).

  The ESG integration processes for different asset classes are described in detail in the next sections.

  In addition to ESG integration, these strategies are also subject to **Candriam's company-wide exclusions**, as well as to **specific exclusions** that depend on the strategy. For a detailed description of Candriam's exclusion policies, please refer to the Candriam Exclusion Policy.

[2] A Candriam fund may have indirect exposure to some of the excluded activities if investments in such activities are made through index derivatives or external funds/ETFs not managed by Candriam.

- **Investment strategies with ESG integration and ESG-eligible universes**
  For a part of its investment strategies, Candriam applies both **ESG integration** and **ESG-eligible universes**. This is the case of strategies classified as Article 9 under SFDR as well as of certain Article 8 strategies. For these strategies, an ESG-eligible universe is determined using the outputs of the corporate and sovereign ESG analytical frameworks described above. In the selection within these ESG-eligible universes, we then apply the integration approach which is described in the next sections.

  For strategies classified as Article 9, the criteria used to define the ESG-eligible universe[3] are described in Candriam's Implementation of the Definition of 'Sustainable Investment' under the Sustainable Finance Disclosure Regulation (SFDR)

  In addition, these strategies are also subject to **Candriam's company-wide exclusions**, as well as to **specific exclusions** depending on the strategy. For a detailed description of Candriam's exclusion policies, please refer to Candriam Exclusion Policy.

3.2. Approach to ESG integration @ Candriam

ESG integration is critical for investing decision-making, given that the ESG trends and challenges our society face could test the resilience of financial and economic systems. At the same time, these challenges also offer opportunities to foster innovation through our investments – innovation which in turn can fuel new pockets of growth. This goes beyond environmental matters and includes the social and governance dimension of corporate behaviour.

Integrating ESG fully reflects our belief that specific environmental, social, and governance issues are already being or will soon be priced into financial markets due to policy, technology, or societal change. In fact, in this regard, traditional financial metrics and accounting statements are inherently backward-looking and tell only part of the story. ESG analysis adds essential layers of information that capture the "intangible" aspects that are not fully captured by traditional financial analysis. For instance, as far as corporate issuers are concerned, a growing share of companies' value is derived from intangible assets like brand, reputation, human capital and innovation. Thus, sustainability-related risks, when realised, can potentially impact stock value not only through their physical impacts, but also through their effect on brand, goodwill etc.

Candriam's portfolio management teams therefore integrate within their investment process financially relevant ESG factors, taking into account the specificities of each asset class. The objective is to leverage on ESG knowledge and information across all our investments, whilst adapting for the distinct nature of each strategy.

The foundation of this integration is the ESG assessment described in section 3, above, conducted using Candriam's proprietary ESG analytical frameworks.

However, ESG integration can only be effective when it is material and relevant to the investment strategy at hand and the respective portfolio manager's decision-making process. ESG risks and opportunities vary across sectors and regions, and may have varying impact depending on the investment horizon or asset class. It is thus essential that portfolio managers, when making investment decisions, understand the ESG issues that are material for assessing the risk-return trade-off and then integrate those into the investment process. ESG integration requires thus a thorough understanding of the investment issues at stake, which will enable portfolio managers to harness the power of environmental, social and governance data, analysis, and recommendations to inform the investment decision-making process.
Broad and deep ESG integration of ESG ensures that opportunities arising from ESG megatrends and risks embedded in ESG practices will continue to drive alpha generation and/or risk mitigation. Moreover, ESG integration assists in upholding our fiduciary duty to clients by taking into

[3] Other criteria may be applied to the eligible universe, depending on the type of strategy

consideration both financial and extra-financial aspects to achieve better long-term risk- adjusted returns.
The ESG integration processes for different asset classes are detailed in the sections that follow.

3.3. ESG integration for equity strategies

➢ **Traditional equity strategies:**

At Candriam, we integrate ESG information and analysis into equity investment decisions in order to better assess the risks and opportunities that stem from the business activities and operations of companies. Respecting and preserving the distinct nature of each philosophy and approach across our range of fundamental, thematic and emerging markets funds, Candriam's fundamental equity investment strategies are impacted at each of the following 4 levels:

1. ESG exclusions from the investment universe
2. ESG integration into fundamental analysis of companies
3. Consideration of ESG in company valuations
4. Impact of ESG on portfolio construction

1. ESG exclusions from the investment universe

In a first step, we rule out companies that are in breach of the principles of the **United Nations Global Compact**. These ten principles cover four main categories: Human Rights, Labour, Environment, and Anti-Corruption. The norms-based review identifies companies which have significantly and repeatedly breached any of the principles of the United Nation's Global Compact.

We also exclude companies that are involved **in controversial weapons** (biological weapons, chemical weapons, white phosphorus weapons, anti-personnel landmines, cluster munitions and depleted uranium weapons), **Tobacco**, **Thermal Coal** and operate in **Oppressive regime.**

2. ESG integration into fundamental analysis of companies

Candriam's fundamental equity strategies[4] take into account the "**Business Activities Analysis**" and "**Stakeholder Analysis**" scores resulting from Candriam's corporate ESG analytical Framework in fundamental analysis and in **"Company Valuation"** as follows:

Quality of Management

In order to obtain a holistic view on the overall governance and soundness of a company's management, we assess a company's relationships with several stakeholders by considering and integrating qualitative ESG information and quantitative ESG scores that result from the ESG stakeholder analysis.

Further to the assessment of strategy, stability, track record, corporate communication and other financial criteria, we assess the Management team on its relationships with its stakeholders.

The ESG Stakeholder analysis is taken into account in the Quality of Management assessment. If the company 'stakeholder' score is in the bottom 20% of its universe[5], the 'Quality of Management score' cannot be 'green'.

Business Growth

In the assessment of business growth, the ESG Business Activities Analysis of issuers is taken into account. Candriam has identified key long-term sustainability trends which strongly influence the environment in which companies operate and which influence their future market challenges and long-term growth and prosperity.

[4] Applicable for developed markets (Emerging Markets get a specific analysis)

[5] Investment universe varies across strategies

Five Key Sustainability Challenges, that is Climate Change, Resource Depletion, Health & Wellness, Demographic Shifts and Digitalisation, are analysed in order to assess the growth potential in conjunction with other key market drivers and regulatory risk.
More specifically, we consider the supply and demand dynamics as well as market drivers, the **score resulting from the ESG Business Activities analysis**, and potential regulation constraints to determine the overall score for the pillar.

Competitive Advantage
We perform an intrinsic analysis of products and services, R&D, customer support, and other areas relevant to the company's business, including opportunities and risks resulting from the ESG considerations. Very often, ESG factors directly impact the strategic positioning and innovation of a company relative to its peers through its brand, product/concept/services leadership, costs, R&D, marketing and distribution. .
We use the Porter concepts to analyse the competitive position of the company in its industry, such as the threat of new entrants, threat of substitutions, and the bargaining power of suppliers and customers.
We check potential regulatory constraints and assess their impact on the competitive advantage of the company, and opportunities that arise barriers as well **to entry** resulting from new environmental policies. Considering the ambitious Climate objectives of many countries across the globe, and the ensuing regulation and legislation regulating emissions and pollution, we expect companies that have business activities sustainably and positively contributing to those environmental objectives, to outperform in the long run.

Final Fundamental Assessment
As **ESG factors** are taken into consideration in the evaluation of ***Quality of Management*** on the one hand, and the assessment of ***Business Growth*** and ***Competitive Advantage*** on the other hand, they directly impact the overall assessment of those two building blocks of Candriam's fundamental equity analysis as well as the score attributed to each one.

Therefore, the **ESG assessment is a contributing factor to determine the final colour/score of a company, which in turn will determine the weighting of this position in the final equity portfolio.**

For each criterion, companies receive one of the following scores: 0 (weak), 1 (medium) or 2 (strong quality). All the five scores are then compiled in order to get a global score/colour grade of the companies which determine the "quality score" of a company: "High Quality", "Satisfying Quality" and "Low Quality".

3. Consideration of ESG in company valuations

We further evaluate the dynamics of companies' profitability and growth, the liquidity of the equity, and valuation. Our valuation is predominantly based on DCF models using at least five years of projected Free Cash Flow, based on our internal projections.
We adjust the discount rate based on the final score/colour of a company which **takes into account ESG criteria**. For example, for green companies, we reduce the discounting rate within our DCF. This modification has a significant impact on the DCF- valuation.

4. Impact of ESG on portfolio construction

After filtering on the basis of thematic, sectoral and/or geographical criteria, the eligible universe is reduced according to norms-based exclusions and controversial activity exposures.
Within this eligible universe, the process is mainly colour-based, bottom-up stock selection; **weightings in the portfolio are function of the global colours of the companies**. The sector weight deviations from the benchmark are not a strategic objective; they result from our convictions on individual stocks, with top-down sanity checks and other deviation boundaries.
The weight is significantly impacted by the colour grade (that considers the ESG scores and recommendations as described above), and the upside potential derived through our valuation analysis (that takes the ESG score into account as well).
We favour companies that are 'green' in all aspects. An 'orange' company will have a lower weight and 'red' companies are in principle excluded, or extremely reduced, depending on the process.

➢ **Thematic equity strategies:**

ESG is integrated into the investment process of thematic strategies at two levels.

Firstly, based on a Business Activity Analysis, Candriam's thematic approaches select companies providing solutions to address the global sustainability challenges to which our economy and society are exposed. The analysis conducted in this phase results from synergies between the ESG Analysts and the thematic Investment Team. The thematic Framework is not only central to the strategies, but is the starting point of the process. All issuers must successfully pass this stage, otherwise they are excluded.
The investable universe is therefore the result of a selection that fully integrates one or more pillars of the ESG triptych into its theme.
For more information about our different thematic strategies, please refer to our dedicated Thematic Transparency Code.

The ESG integration process is similar to the one described above for the traditional equity strategies, but applied to the defined thematic universe.

3.4. ESG integration for quantitative equity and index strategies

In quantitative portfolios, we integrate ESG factors at two steps of the investment strategy : in a first step, the quant process defines the eligible universe, in a second step, ESG indicators are being employed in the optimisation process to build the portfolio.

1. Eligible universe (Positive/ negative screening)

In first instance, we rule out companies that are in breach of the principles of the United Nations Global Compact following the ESG assessment negative screening. The so-called Norms-based review identifies companies which have significantly and repeatedly breached any of the principles of the United Nation's Global Compact.
We also exclude companies that are involved in controversial weapons (biological weapons, chemical weapons, white phosphorus weapons, anti-personnel landmines, cluster munitions and depleted uranium weapons), Tobacco, Thermal Coal and Oppressive regime.
For our SFDR article 9 strategies, we also apply a positive screening by creating an investment universe based on the Best in universe companies only which are identified by the ESG analyst team.

2. Portfolio Construction

In our portfolio construction, we include two additional ESG indicators as optimisation constraints to attain our sustainable objectives.

- Carbon Footprint: Portfolios aims to have a lower carbon footprint than the Benchmark. For SFDR article 9 funds, the decarbonisation level is set at minimum at 30%.
- ESG score: The strategies aims to have a higher ESG score than the benchmark.

The application of this ESG integration process for the passive investments strategies forces to sell the worst scores and highest carbon emitting companies and buy the highest ranked/ Low carbon emitting companies.

3.5. ESG integration for fixed income strategies

We have a duty towards our clients to accurately assess the creditworthiness of the issuers we potentially lend money to, and believe the sustainability must be assess as it can impact the business profile of the issuer, thus its credit worthiness. Additionally, as an asset manager leader in sustainable investments, evaluating the sustainability of issuer we may invest in is pivotal. In order to uphold this responsibility, **Governance** and **Environment** along with **Social** awareness are central to our **ESG Integration approach** applied across all our fixed income asset classes to **mitigate risks for investors**.

We believe that sound ESG practices are essential for all issuers, with **Governance** playing a critical role in driving and sustaining these practices. Numerous studies have shown that issuers with weak

governance are more prone to controversies and underperformance relative to peers, ultimately jeopardising their ability to meet debt obligations. For **corporate issuers** this implies **proper board** and **oversight structures**. For **sovereigns** this includes the **policies implemented to ensure political stability, freedom of its citizens and eradicate corruption.**

We strongly believe that Environment and more precisely **Climate Change** is the predominant challenge of our times. Climate change will intensify existing risks and generate new risks for natural ecosystems and human systems, including businesses and governments. As stated by the UN PRI, "financial markets today have not adequately priced-in the likely near-term policy response to climate change". We fully concur with this statement and therefore strive to ensure that climate change risks are taken into account throughout all our investments.

At Candriam, ESG integration for fixed income is underlined by three key pillars:

1. a holistic top-down approach,
2. a focus on material factors,
3. A systematic process.

A true ESG integration approach is based on synergies between investment, ESG research, and those responsible for engagement. At Candriam, we have implemented a **dedicated Committee** that combines our credit and ESG experts to discuss ESG issues impacting specific sectors and regulatory frameworks.

1. Holistic top-down approach

We apply a **holistic top-down approach** requiring an overall assessment of all the aspects of a country, sector and business exposure to material ESG issues. For corporates, Candriam's ESG analysis performs the top-down assessment of how the business activities are aligned with defined Key Sustainable Challenges and how the various stakeholders are being managed. For sovereign issuers, we assess how a country manages its Human, Social, Economic and Natural capital by applying policies that support both short- and long-term sustainable development.

2. A focus on material factors

We focus on **Environmental, Social and Governance factors** impacting the economic and debt profile of sovereign issuers.

Similarly, we are also assessing the impact of those factors on credit worthiness and/or financial performance of corporate issuers. As ESG materiality varies across sectors, we use a sector-based approach to identify the aspects representing high-impact risks to enhance risk-adjusted performance.

3. A systematic process

These ESG criteria are **systematically integrated** in Candriam's corporate and sovereign credit recommendations. We do not limit our analysis to examining historic data; we use a forward-looking approach, meaning that we will determine how these material factors may evolve in the future.

- **Corporate issuers:**

  Our fundamental analysis is based on a study of both the business profile analysis and financial profile analysis. During the business analysis, we explicitly integrate ESG factors. The environmental, social and governance factors are evaluated based on their relevance and materiality to a company's creditworthiness. We believe a study of ESG factors is indispensable in order to gain a complete understanding of the creditworthiness of an issuer. This study is carried out by our credit analysts who are specialised by sector and across investment grade and high yield markets as well as developed and emerging market corporate bond markets.

  This credit analyst team is supported by our independent ESG research unit that includes 13 analysts and 4 analysts that are responsible for engagement with companies. The ESG analysts provide an ESG Rating for every issuer for our fixed income universe. In doing so, they also provide a strong platform for our credit analysts and a weak ESG ranking will provide a negative signal for them.

Our team of analysts performs a detailed analysis of each issuer across two sets of criteria:

- ESG-integrated Business Profile of the issuer

    - ESG-integrated Business Profile of the issuer: This includes an analysis of the competitive positioning within the sector and an in-depth review of ESG factors that are integrated into an overall business profile score. Our evaluation of ESG factors provides us with vital extra-financial information, enabling us to get a clear view of the issuer's profile. This ESG evaluation is applied on three main themes: Sector Assessment, Business & Stakeholder Analysis and Governance Analysis.

    - Environmental analysis is highly driven by regulation on a sectoral basis. Within our environmental analysis framework, we primarily focus on aspects such as climate change and resource depletion, while also paying close attention to pollution and biodiversity in certain cases. The aim is to gain a clear understanding of the risks that each issuer exhibits from an environmental perspective. Certain sectors (autos, energy) are more CO2 intensive and hence the transformations needed are likely to be more intensive. The framework therefore differentiates between CO2 intensive sectors, though each one is subject to regulation and an understanding of how a company aligns itself to the various targets that have been set is key

    - The social factor in ESG integration examines the degree to which a company manages its relationships with its workforce and with society at large. Due to the rather specific nature of certain questions, they can only be applied to the relevant sectors. Product safety for example does not always concern the information technology sector but will apply to automakers. Employee safety is more relevant to sectors like mining and construction than media and telcos. Other themes, such as training and career management, on the other hand can be applied to all sectors.

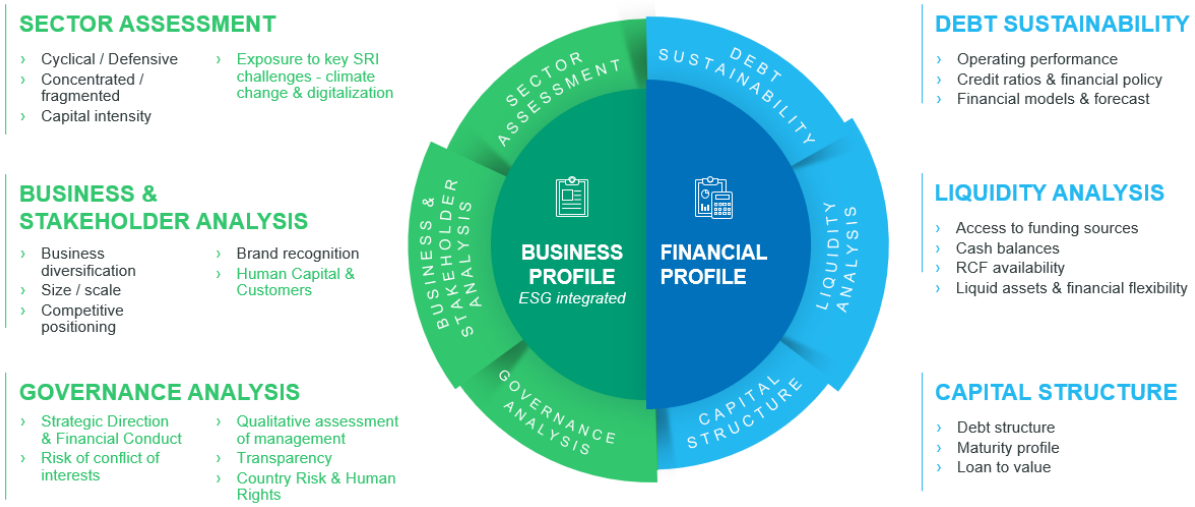
    - Governance has always been an important element of our credit analysis. Corporate governance is critical in helping companies achieve their goals and control risks through creating policy and monitoring its implementation. Our framework allows us to establish a governance analysis for each company through a thorough understanding of 4 key themes both on a quantitative and qualitative level. These themes are 1) strategic direction and financial conduct; 2) Risk of conflicts of interest; 3) qualitative assessment of management and 4) country risk and human rights.

In doing so, on a qualitative basis, our analysts can incorporate the results of the ESG framework into the overall business profile evaluation. It is important to note that a weak ESG assessment can have a material impact on the business profile score, moving it from strong to satisfying or even to weak, depending on the amplitude of the results.

2. Financial Profile of the issuer

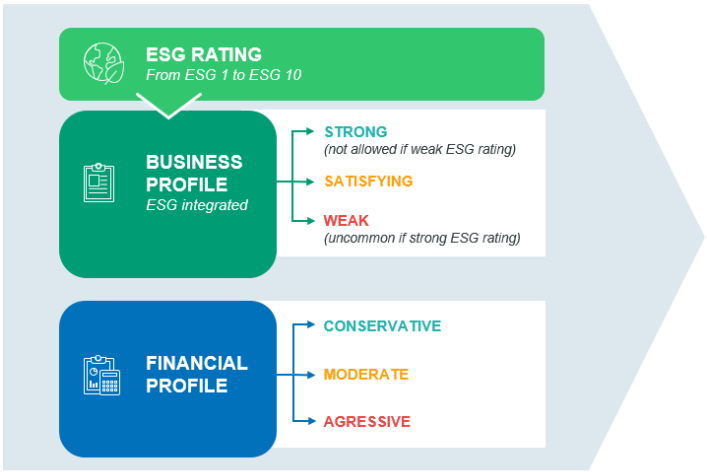
- Financial Profile of the issuer: We analyse the liquidity and the debt profiles and the capital structure. For financials, the analysis entails a deep study of the capital ratios, the liquidity/funding and the asset quality of the institution.

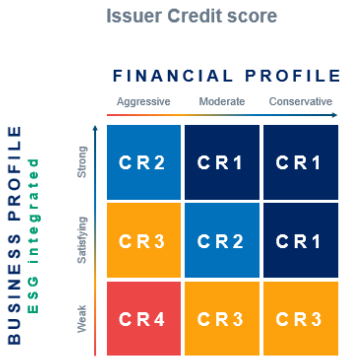
Fundamental analysis integrating ESG factors



Following the assessment of the Business Profile integrating ESG factors and the Financial Profile, an issuer Credit Score from CR1 to CR4 is determined.

Fundamental analysis integrating ESG factors





For every issuer, we consult the ESG rating in order to compare with the ESG assessment that is carried out by our credit team. This final step, before providing a final business profile score, allows our credit analysts to perform an overall check in terms of their ESG evaluation. Indeed, if an issuer is deemed weak by our ESG team (ESG 8, ESG 9 or ESG10), then it cannot have a strong business profile score. Below we illustrate how credit recommendations are established and the role of ESG integration and ESG ranking.

➢ **<u>Sovereign issuers:</u>**

Our Sovereign Debt fund management team incorporates ESG factors into **sovereign creditworthiness analysis** using **Candriam's proprietary sovereign model**, which is structured around the four pillars of the ESG framework: Natural Capital, Economic Capital, Social Capital, and Human Capital.

These pillars are systematically embedded within both the Economic Profile analysis and the Debt Profile analyses as per the below:

- **Economic Profile:**
    - **Economic imbalances:** the Economic Capital pillar scrutinises a country's economic fundamentals, with a focus on its long-term ability to finance growth and sustainable policies.
    - **Social imbalances:** the Human Capital pillar assesses a country's productive potential by analysing factors such as education, skill levels, innovation, healthcare quality, labor market access, and employment practices.
    - **Environmental imbalances:** the Natural Capital pillar examines the country's sustainable management and conservation of natural resources, addressing key challenges such as climate change, resource consumption, biodiversity protection, and waste management.
- **Debt Profile:**
    - **Institutional Framework:** the Social Capital pillar evaluates the quality of civil society and institutional governance, focusing on transparency, rule of law, anti-corruption measures, and the strength of democratic institutions.

Portfolio construction

The impact on Portfolio construction is the following.

- If Credit Rating is CR4/CR5, the issuer cannot be included.
- If Credit Rating is between CR1 and CR3, the following applies to portfolio construction.
    - We provide a weight based on:
        - Credit score (ESG integrated)
        - Macro assessment.
        - Relative value opportunities (yields, Spreads, Prices)
        - Market assessment (high yield, IG, EMD etc)

Additionally, for fixed-income strategies that invest in Green, Social, or Sustainability (GSS) bonds, we have developed a quantitative approach to ensure a minimum of sustainability credentials. We believe these instruments play a crucial role in facilitating capital raising for both new and ongoing projects with clear environmental and/or social benefits.

The eligibility of GSS Bonds is determined by their alignment with recognized market standards, including, but not limited to the ICMA Green Bond Principles, the ICMA Social Bond Principles, the ICMA Sustainability Bond Guidelines, the CBI - Climate Bonds Standard, and / or the EU Green Bond Standard. Additionally, there must be documented evidence of an external review of the pre-issuance materials.

For certain strategies[6], we have incorporated ESG targets that mandate a minimum allocation of the portfolio to Green Bond instruments. Depending on the strategy, the targets may set a minimum threshold ranging from 10% to 75% of the portfolio's total net assets to be invested into Green Bonds.[7]

In addition, for Sustainability-Linked Bonds, we also ensure that the issuances are aligned with market standards such as the ICMA Sustainability-Linked Bond Principles. An external review must also be obtained for these instruments.

[6] As of June 2025: Candriam Sustainable Bond Euro Corporate, Candriam Sustainable Bond Euro, Candriam sustainable Bond Euro Short Term, Candriam sustainable Bond Global, Candriam Sustainable Bond Impact, Candriam Bonds Euro Government, Candriam Bonds Global Government, Candriam Fund Bond 2027, Candriam Fund Bond 2030, Candriam Fund Sustainable Euro Corporate Bonds Fossil Free

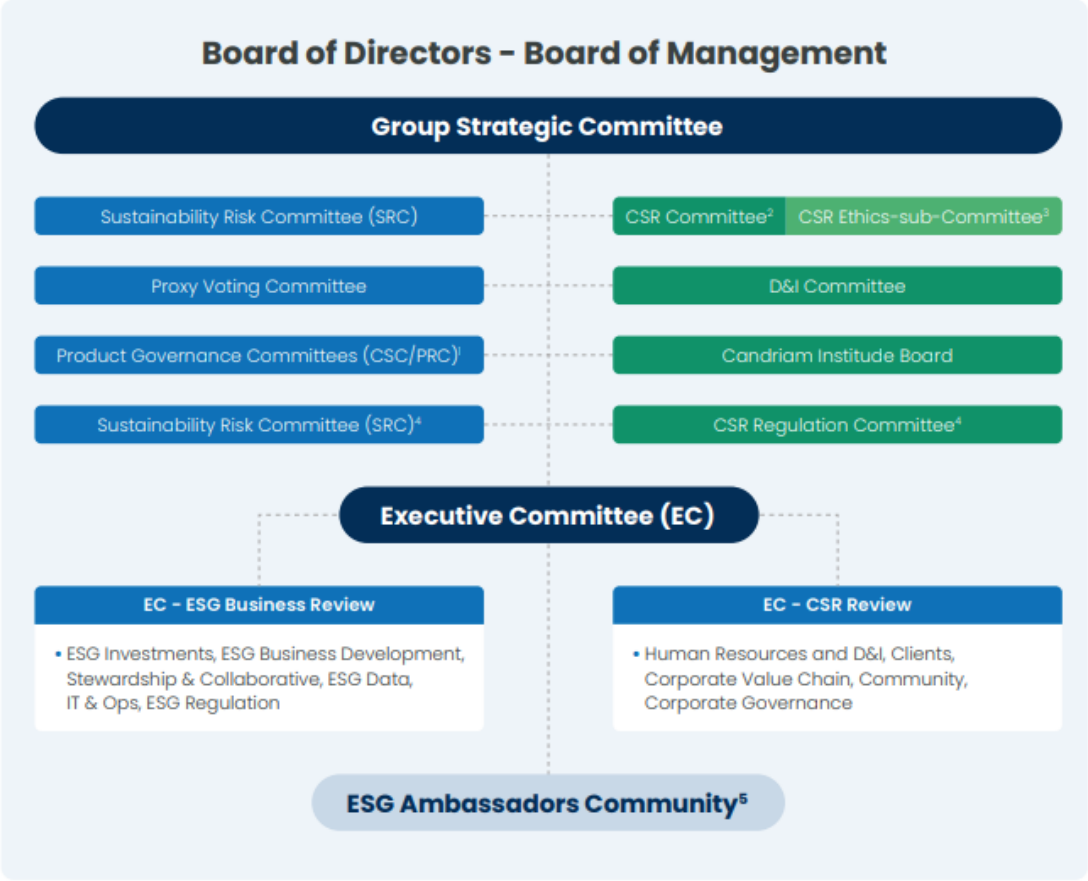
[7] Please refer to the Precontractual disclosure-ESG annex

4. Governance

This ESG Integration Policy is diligently overseen by Candriam's ESG Investments & Research Department and by Candriam's Portfolio Management functions. The ESG Integration Policy is reviewed and, if necessary, updated at least annually.

In the case of strategies for which ESG integration is linked to ESG Key Performance Indicators, the Risk Management Department ensures that the strategies are aligned with the predefined KPIs. Breaches are handled via the Candriam Breach Resolution and Escalation Policy, and reported to the Sustainability Risk Committee.

These processes are backed by Candriam's robust firm-wide ESG Governance structure:



Effective governance as per January 2025

Within Candriam's Governance framework, the key committees relating to ESG are as follows:

- The **Board of Directors** is responsible for strategy and general policy. It ensures that Candriam has defined and implements a strategy in relation to ESG and corporate sustainability. In this context the Board is responsible for validating the relevant critical policies.
- The **Candriam Board of Management** is Candriam's key decision-making body on strategic issues including ESG and corporate sustainability. It examines and approves relevant sustainability policies, including those covering sustainability risks, climate and human rights. It meets once a month.
- The **Group Strategic Committee (GSC),** chaired by Candriam CEO Vincent Hamelink, CFA, sets out the strategic orientations for the firm's ESG investing (both from a product and a commercial standpoint) and Corporate Sustainability, with sustainability focus-sessions supported by Candriam's ESG and CSR experts. The GSC oversees the due diligence approach for Climate and Human Rights risks across the value chain, including the elaboration and review of appropriate policies. It meets two times each month.

Sustainability Governance

Our Sustainability Governance is organized as follows:

Candriam has 45 people involved in the governance and implementation of our corporate and investment sustainability strategy. Our consistent and aligned approach to sustainability issues is achieved through several strategic committees:

Firstly, the **Sustainability Risk Committee (SRC**) oversees and steers the management of extra financial risk in Candriam's investment activities.

The SRC is also responsible for approving the sustainability-related processes and framework for funds and mandates. It assesses and monitors sustainability risks and negative sustainability impacts including climate change and social and human rights risks. These findings are then used to define company-wide sustainability investment restrictions for all our investment activities. The SRC also oversees monitoring of compliance and breaches as well as engagement action plans.

Secondly, the **Proxy Voting Committee** provides strategic guidance on proxy voting best practices and monitors Candriam's voting policy.

Thirdly, the **(Strategic) Client Solutions** and Product Range committees implement our product governance process, overseeing product strategy including sustainability characteristics.

The CSR Committee assesses sustainability risks, opportunities and impacts relating to Candriam's operations. It develops a CSR roadmap across stakeholder domains, coordinates CSR reporting and monitors action plans from Candriam's business units. Its ethics subcommittee monitors Candriam's human rights due diligence process and follows up on alerts by operational, procurement and risk teams and via the compliance whistleblowing procedure.

The **Diversity and Inclusion (D&I) Committee** oversees D&I topics, working with Human Resources and Candriam's Staff Communities to foster D&I at Candriam.

The **Candriam Institute for Sustainable Development** oversees Candriam's philanthropy and community impact programmes through the support of initiatives in sustainability-related research, education and entrepreneurship, social inclusion and solidarity, the environment and cancer research and patient care.

The **Candriam Executive Committee ESG Business Review & CSR Review sessions** follow up on the implementation of the strategic ESG roadmap, reviewing ESG aspects of business development, investments, operations, IT, stewardship and collaborative initiatives, communication and regulation.

The **CSR & ESG Regulation Committee** oversees compliance with ESG/CSR regulations and coordinate the implementation of the sustainability regulatory roadmap.

Finally, in 2024 Candriam launched the **ESG ambassador community**, a dedicated internal group committed to embedding sustainable investing expertise across business units at Candriam.

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The present document does not constitute investment research as defined by Article 36, paragraph 1 of the Commission delegated regulation (EU) 2017/565. Candriam stresses that this information has not been prepared in compliance with the legal provisions promoting independent investment research, and that it is not subject to any restriction prohibiting the execution of transactions prior to the dissemination of investment research.

Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value (“NAV) of the funds. This information is available either in English or in local languages for each country where the fund’s marketing is approved.

Specific information for Swiss investors: The appointed representative and paying agent in Switzerland is RBC Investors Services Bank S.A., Esch-sur-Alzette, Zürich branch, Bleicherweg 7, CH-8027 Zurich. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in Switzerland