



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 addresses adverse impacts through a wide range of methods ranging from ESG Scoring and Exclusions right through to Active Ownership. In line with the funds classification outlined in its SFDR disclosures, Candriam prioritizes PAI Indicators at the investment strategy level.

Greenhouse gas (GHG) emissions and violations of UN Global Compact principles are the two Key PAIs that Candriam considers as essentials at entity level.

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 research and screening methodology considers the PAI on sustainability in all steps of the process. The PAIs are integrated into the ESG analysis of issuers based on the materiality or likely materiality of each indicator for each specific industry/sector to which the issuer belongs. Given the granular nature of the information to be reported in the PAI statement, the 14 mandatory PAI indicators are measured, monitored and assessed employing varying degrees/levels of materiality. Materiality is dependent on several factors, such as type of information, data quality and breadth, applicability, relevance and geographical coverage (in respect of EU and non-EU investee companies that are not subject to any mandatory sustainability disclosure obligations such as those set down in the Non- Financial Reporting Directive).



Materiality of the 16 Mandatory PAIs in Candriam’s ESG Screening Process and models

Materiality
High
Average
Low / No

Indicators Applicable to Investments in Investee Companies

Sustainability Theme	Adverse Sustainability Indicator	Explanation
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CLIMATE AND OTHER ENVIRONMENT - RELATED INDICATORS

Contribute to Climate Change Mitigation - Greenhouse gas emissions	Carbon footprint (PAI 2)	Incorporated in Candriam's ESG analysis and ESG scoring model, High materiality
	GHG emissions (PAI 1)	Incorporated in Candriam's ESG analysis and ESG scoring model, High materiality
	GHG intensity of investee companies (PAI 13)	Incorporated in Candriam's ESG analysis and ESG climate sector (PAI6)
	Energy consumption intensity per high impact	Incorporated in Candriam's ESG analysis and ESG climate sector (PAI6)
	Share of nonrenewable energy consumption and production (PAI 5)	Incorporated in Candriam's ESG analysis and ESG scoring model, High materiality
	Exposure to companies active in the fossil fuel	Incorporated in Candriam's ESG analysis and ESG sector (PAI4)
Preserving Natural Environment and ecosystems	Activity negatively affecting biodiversity sensitive areas (PAI7)	Data quality & coverage not always optimal; average materiality in Candriam's ESG analysis and scoring model
	Emissions in to water (PAI 8)	Data quality & coverage not always optimal; average materiality in Candriam's ESG analysis and scoring model
	Hazardous waste ratio (PAI 9)	Insufficient data quality/coverage; low materiality in Candriam's ESG analysis and scoring model

SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Avoid Companies exposed to controversial or illegal practices	Exposure to controversial weapons (PAI 14)	Incorporated in Candriam's ESG analysis and ESG scoring model, Highest materiality
	Violations of UN GC principles and OECD (PAI 10)	Incorporated in Candriam's ESG analysis and ESG scoring model, Highest materiality
	Lack of processes and compliance mechanisms to monitor compliance with UN GC (PAI 11)	Incorporated in Candriam's ESG analysis and ESG scoring model, Highest materiality
Promoting Gender Diversity	Board Gender Diversity (PAI 13)	Average materiality in Candriam's ESG analysis and scoring model
	Unadjusted Pay Gap (PAI 12)	Data quality & coverage not always optimal; average materiality in Candriam's ESG analysis and scoring model

INDICATORS APPLICABLE TO SOVEREIGNS & SUPRA-NATIONALS

Environmental	GHG intensity (PAI 15)	Incorporated in Candriam's ESG analysis and ESG scoring model (natural capital), Highest materiality
Social	Investee countries subject to social violations (PAI 16)	Incorporated in Candriam's ESG analysis and ESG scoring model (social & human capital), Highest materiality

For each sustainability theme, the indicators are ordered by decreasing priority.



A set of additional PAI indicators also measured and monitored in Candriam’s ESG research and screening methodology. As clarified above, these additional PAIs have a varying and most often different impact on industries/sectors dependent on the ESG specificities of activities within that industry/sector. Again, data quality and breadth, applicability, relevance and geographical coverage are driven factors used in the assessment of the materiality of each individual PAI indicator.



Indicators applicable to investments in sovereigns and supranationals

		Materiality for your sector:
Green securities	17. Share of bonds not certified as green under a future EU act setting up an EU Green Bond Standard	
Social	18. Average income inequality score	
	19. Average freedom of expression score	
Human rights	20. Average human rights performance	
Governance	21. Average corruption score	
	22. Non-cooperative tax jurisdictions	
	23. Average political stability score	
	24. Average rule of law score	

Significant gaps still exist between the level and type of information currently provided by investee companies on sustainability issues and the information required for Candriam to comply with legal reporting obligations. In some areas, like financial reporting and the corporate social responsibility or CSR report, high-quality data usually available and subject to quality and accuracy checks by company auditors or regulators. However, for the PAI indicators, this type of audited and standardized reporting does not always exist. The materiality matrix displayed above considers the availability and quality of the information needed to measure and monitor the PAI on sustainability.

The ESG Investment & Research team performs due diligence on each ESG data provider to ensure all material ESG issues are covered in the best way to ensure a high-quality sustainability assessment of investee companies. Data from ESG data providers that are integrated into Candriam's ESG research methodology and portfolio management systems are subject to several levels of control and monitoring to ensure that the ESG data in all Candriam's information systems (fund & risk management, reporting, ...) are adequate, sufficient and consistent.

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.

In complement to the information-gathering process based on ESG research and engagement, the ESG team and other stakeholders employ other information sources based on the benefits they bring to the ESG research and screening process and reporting. As at June 30th, 2021, the following external ESG data providers used:



Type of Screening	Rating Agency	Certification	Scope	Link
Gender equality criteria	Equileap	-	International Companies	https://equileap.org/
International standardized reporting and disclosure method for workplace gender data.	Bloomberg	Gender-Equality Index	International Companies	www.bloomberg.com/GEI
ESG Criteria – Controversial Activities – Norms-based Criteria	MSCI ESG Research	-	International Companies	https://www.msci.com/esg-integration
Norms-based Criteria	ISS-Ethix	-	Emerging Market Companies	https://www.issgovernance.com/
Screening criteria used to exclude the weapons industry			International Companies	
Environmental Data	S&P Trucost	-	International Companies	https://www.trucost.com/
Greenhouse gas emissions, energy mix, percentage of exposure to fossil fuels				
ESG Criteria – Controversial Activities – Norms-based Criteria	Sustainalytics	-	International Companies	https://www.sustainalytics.com/
Energy and mining sector screening used to exclude unconventional extractions and thermal coal	Wood Mackenzie	-	International Companies	https://www.woodmac.com/
Sustainable Development Goals measurements	ISS-Oekom	-	International Companies	https://www.issgovernance.com/esg/
Country risk metrics and analysis	MapleCroft	Gender-Equality Index	International Companies	https://equileap.org/
ESG country risk metrics and analysis	RepRisk	-	Sovereign Issuers	https://www.maplecroft.com/
Country risk metrics and analysis	EIU	-	Sovereign Issuers	https://www.reprisk.com/
Country energy data				
Quantitative data, political risk and country risk ratings	PRS Group	-	Sovereign Issuers	https://www.eiu.com/n/
ESG performance of economies - Sovereign Credit risk – Climate Objectives Alignment	Beyond Ratings	-	Sovereign Issuers	https://www.beyond-ratings.com/
Environmental data based on energy transition & adaptation to climate change	Carbon4 Finance	-	International Companies	https://www.carbone4.com/



3. DESCRIPTION OF POLICIES TO IDENTIFY AND PRIORITIZE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

a. Governance

Candriam has implemented a firm-wide ESG governance structure to ensure the proper oversight and information flow of ESG issues and impacts.

The Sustainability Risk Committee, co-led by Candriam's ESG and Risk management team, oversees the process of managing the PAI on sustainability of our investee companies & countries. The different steps are the following:

- Presentation of ESG analysis and Due Diligence with identification of the worst ESG performers, and proposals for appropriate action
- Review and validation of the process with final decision on actions
- Oversight of calculation and integration of PAIs into management systems

When any ESG weakness on an issuer is detected that could potentially lead to a major adverse impact on a sustainability factor, the ESG team proposes adequate action to the Sustainability Risk Committee for decision: Engage & initiate dialogue, Exclusion, No action.

b. Candriam's Due Diligence process on E, S & G impacts, led by the ESG team

Candriam aims to manage the risks and the potential adverse sustainability impacts from its investments in several ways, including the use of general screening criteria, surveillance of norms breaches and application of Candriam's proprietary ESG scoring system.

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

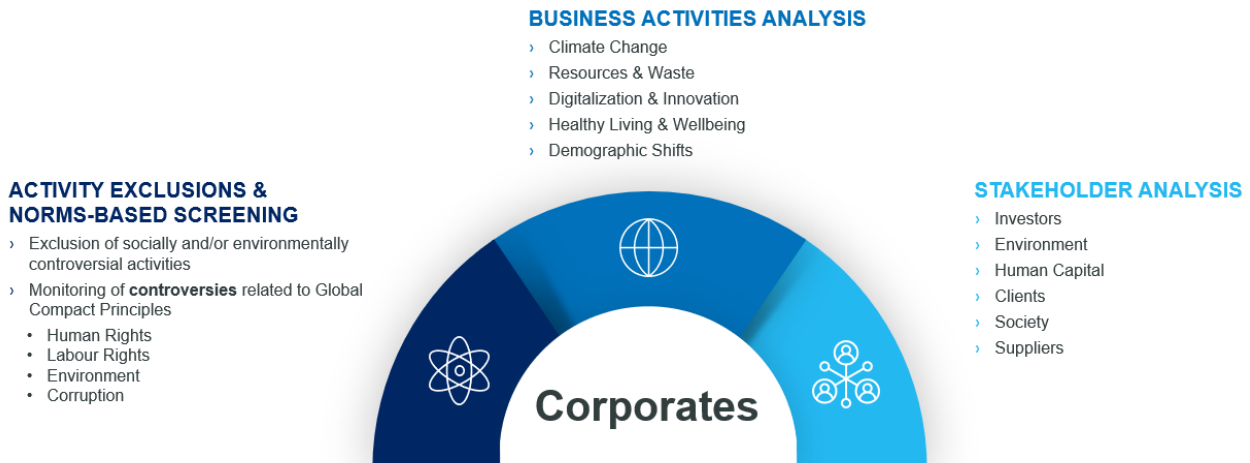
The ESG analysis conducted aims to assess how companies create value by integrating sustainability into their business activities and the interest of stakeholders within their operating and financial managerial processes.

Sustainability Challenges are analysed from two distinct, but interlinked, angles, Business Activities and Stakeholder Management. Candriam has developed a structured and consistent ESG analysis process enabling the selection of companies in accordance with the latter's ability to deal with these two sector-specific challenges.



a. Corporate

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

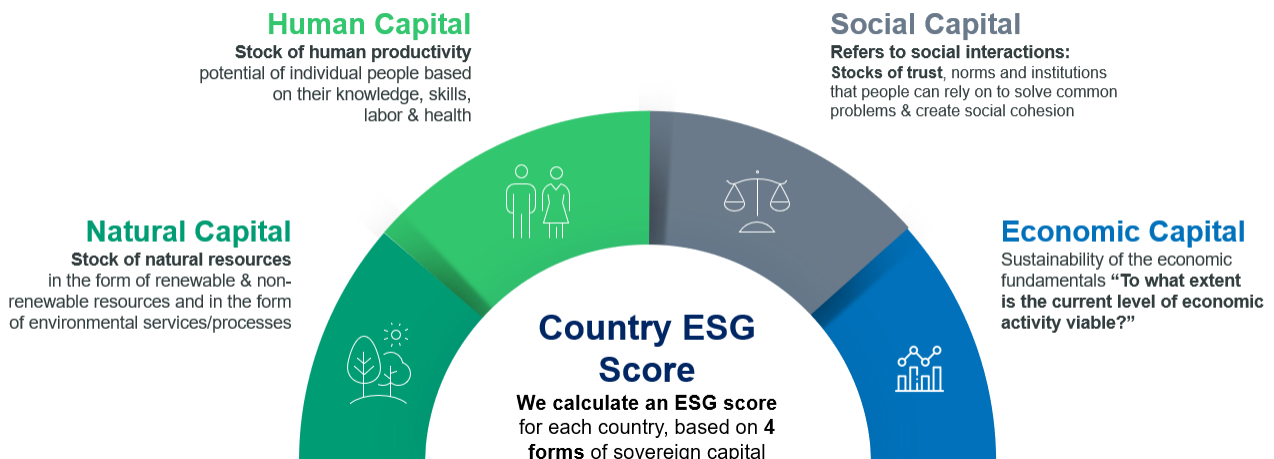


The **ESG ratings** are constructed using a proprietary ESG framework comprising the following pillars:

- **Controversial Activities:** exclusion of companies involved in selected activities that do not embody sustainability.
- **Norms-Based Analysis:** companies that do not uphold the principles of the UN Global Compact are excluded.
- **Business Activity Analysis:** Companies are exposed to major long-term ESG trends that can strongly influence the environment in which they operate and that may shape their future market challenges and long-term growth. We have identified five key sustainability trends: Climate Change, Resource & Waste, Healthy living & Well-being, Demographic Shifts and Digitalization & Innovation.
- **Stakeholder Analysis:** We evaluate the extent to which each company incorporates the interests of six stakeholders in its long-term strategy: Investors, Human Capital, Suppliers, Clients, Society and the Environment.
- **Stewardship:** Engagement, Dialogue, and Proxy Voting are central to our investment process in providing additional information on issuers and encouraging best practices.

b. Sovereign

Candriam’s approach to ESG sovereign analysis is based on four sustainability pillars: Human Capital, Natural Capital, Social Capital, and Economic Capital. This analysis is coupled with exclusion rules relating to high-risk regimes and minimum standards of democracy. Please find below an overview of the sovereign framework:



The ESG sovereign rating assesses the extent to which countries perform well across four categories of sustainable development criteria: Human **Capital**, **Natural Capital**, **Social Capital** and **Economic Capital**. Environmental factors play a preponderant role in the model, affecting how well a country scores on the human, social and economic capital. Overweighting environmental aspects is justified by the fact that a country cannot perform well on any front if it faces serious and long-term environmental damages. Sooner or later, these environmental externalities will impact human health, social cohesion and economic capital criteria.

The four capital domains incorporate a wide range of material ESG factors sourced from several specialised data providers.

As the ESG sovereign analysis also aims to set minimum standards in terms of democracy and transparency behaviour, we exclude highly oppressive regimes dictatorships and countries classified as “not free” based on the Freedom House Freedom in the World Index and the World Bank Voice & Accountability Index. We also exclude all countries on the Financial Action Task Force FATF List of High-Risk Jurisdictions subject to a Call for Action.





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