

CANDRIAM'S CORE SRI FUNDS



Statement of Engagement

Sustainable & Responsible Investment is an essential part of the strategic positioning and behavior of Candriam. We have been involved in SRI since 1996 and welcome the European SRI Transparency Code.

This is our tenth statement of commitment and covers the period 2019-2020. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Please note that we have also drafted Transparency codes for:

- Candriam's SRI Emerging Markets Equity funds, which invest in sustainable & responsible companies in emerging markets;
- Candriam's SRI Index funds, which incorporate SRI criteria into their investment process, in accordance with a dedicated index management strategy;
- Candriam's SRI ETFs, which factor ESG criteria into their investment process.
- Candriam's Climate Change Thematic funds, which invest in companies providing climate change solutions

The responses to the European SRI Transparency Codes for all the above-mentioned funds are available on our corporate website and our dedicated SRI website: <https://www.candriam.com/en/professional/market-insights/sri-publications/>.

Compliance with the Transparency Code

Candriam is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Candriam meets the full recommendations of the European SRI Transparency Code.

June 2019

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1. List of Funds Covered by the Code

Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset Class	Exclusions standards and norms	Labels
<p><input checked="" type="checkbox"/> Best in class Investment Section - Candriam's Best-In-Class framework comprises positive screening combined with a norms-based and controversial activities exclusion screening.</p> <p><input type="checkbox"/> Engagement & Voting</p> <p><input type="checkbox"/> ESG Integration</p> <p><input checked="" type="checkbox"/> Exclusion</p> <p><input type="checkbox"/> Impact investing</p> <p><input type="checkbox"/> Norms-based Screening</p> <p><input type="checkbox"/> Sustainability Themed</p>	<p>Passively managed</p> <p><input type="checkbox"/> Passive investing – core benchmark: specify the index tracking</p> <p><input type="checkbox"/> Passive investing –ESG/SRI benchmark: specify the index tracking</p> <p>Actively managed</p> <p><input checked="" type="checkbox"/> Shares in a euro area country</p> <p><input checked="" type="checkbox"/> Shares in an EU country</p> <p><input checked="" type="checkbox"/> International Shares</p> <p><input checked="" type="checkbox"/> Bonds and other debt securities denominated in euro</p> <p><input checked="" type="checkbox"/> International bonds and other debt securities</p> <p><input checked="" type="checkbox"/> Monetary assets</p> <p><input checked="" type="checkbox"/> Short-term assets</p> <p><input type="checkbox"/> Structured funds</p>	<p><input checked="" type="checkbox"/> Controversial weapons</p> <p><input checked="" type="checkbox"/> Alcohol</p> <p><input checked="" type="checkbox"/> Tobacco</p> <p><input checked="" type="checkbox"/> Arms</p> <p><input checked="" type="checkbox"/> Nuclear power</p> <p><input checked="" type="checkbox"/> Human rights</p> <p><input checked="" type="checkbox"/> Labour rights</p> <p><input checked="" type="checkbox"/> Gambling</p> <p><input checked="" type="checkbox"/> Pornography</p> <p><input checked="" type="checkbox"/> Animal testing</p> <p><input type="checkbox"/> Conflict minerals</p> <p><input type="checkbox"/> Biodiversity</p> <p><input type="checkbox"/> Deforestation</p> <p><input checked="" type="checkbox"/> CO2 intensive (including coal)</p> <p><input checked="" type="checkbox"/> Genetic engineering</p> <p><input checked="" type="checkbox"/> Global Compact</p> <p><input type="checkbox"/> OECD Guidelines for MNCs</p> <p><input type="checkbox"/> ILO Conventions</p> <p><input checked="" type="checkbox"/> Other (please specify) -Oppressive Regimes - Financial Action Task Force List (countries) -Freedom House (countries) -Unconventional & conventional oil & gas (corporates)</p>	<p><input checked="" type="checkbox"/> French SRI label</p> <p><input type="checkbox"/> French TEEC label</p> <p><input type="checkbox"/> French CIES label</p> <p><input type="checkbox"/> Luxflag Label</p> <p><input type="checkbox"/> FNG Label</p> <p><input type="checkbox"/> Austrian Ecolabel</p> <p><input type="checkbox"/> Other (please specify)</p>

In accordance with legal requirements, please refer to our website to access information regarding specific funds in our SRI fund range available in your jurisdiction and information on the corresponding Transparency Code:

- **Belgium:**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/belgium-transparency-codes-fund-registration-table.pdf>

- **Austria:**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/austria-transparency-codes-fund-registration-table.pdf>

- **France:**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/france-transparency-codes-fund-registration-table.pdf>

- **Germany**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/germany-transparency-codes-fund-registration-table.pdf>

- **Ireland**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/ireland-transparency-codes-fund-registration-table.pdf>

- **Italy**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/italy-transparency-codes-fund-registration-table.pdf>

- **Luxembourg**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/luxembourg-transparency-codes-fund-registration-table.pdf>

- **Netherlands**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/netherlands-transparency-codes-fund-registration-table.pdf>

- **Switzerland**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/switzerland-transparency-codes-fund-registration-table.pdf>

- **United Kingdom**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/uk-transparency-codes-fund-registration-table.pdf>

2. General information about the fund management company

2.1. Name of the fund management company that manages the applicant fund(s)

The portfolio management companies that manage the applicant funds are the following:

Candriam Belgium
Avenue des Arts, 58
1000 Brussels – Belgium

Candriam Luxembourg
Serenity Bloc B
19-21 route d'Arlon
L-8009 STRASSEN

Please consult our website for further information: www.candriam.com. This code applies to the Core SRI funds managed by Candriam.

Any question regarding sustainable and responsible investment (SRI) at Candriam can be e-mailed to the following address: investor.support@candriam.com.

The investment firm's SRI assets under management totalled €38.5 billion, i.e. 31% of total AuM, as of March 2019.

2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?

Sustainability is rooted in Candriam's operating model and forms a key part of our corporate culture. Our sustainable development strategy leads us to incorporate the overall trends that will shape the world of tomorrow when defining our strategic operational choices. This strategy aims to establish and maintain a balance between, on the one hand, responsible behaviour towards all stakeholders and, on the other, (a) the synergies between our SRI and traditional investment activities, and (b) the determination to run the company in consideration of the Environment and of Society.

Candriam has been managing Sustainable Investments since 1996. As a responsible asset manager for over two decades, we are committed to the continuous development of our long-standing and holistic Environmental, Social, and Governance analysis approaches, and to the on-going expansion of our large range of SRI investment products. All ESG processes, both active and indexed, are covered by publicly-available transparency and methodology descriptions such as the Eurosif Transparency Codes.

To increase the visibility of sustainable investments to the financial community, we offer investors an SRI solution alongside the traditional investment process whenever possible. We increasingly integrate Environmental, Social, and Governance criteria into all our investment processes.



Over Twenty Years of Sustainable Investing --- Founding Signatory of UN PRI in 2006



Milestones in Candriam's Environmental, Social, and Governance Investing:

1996 -- First Sustainable Equity Fund. In 1996, Candriam's predecessor company, Cordius Asset Management, offered investors our first Sustainable Equity Fund.

2003 -- Structured Proxy Voting System Established. Candriam was a pioneer among Belgian investment managers in exercising the voting rights of its clients to improve investment returns. In 2003 we began a systematic and structured proxy voting effort.

2005 -- Proprietary Environmental, Social, and Governance research. In 2005, Candriam launched its in-house ESG analysis, using a 'Best-in-Class' approach. Our BIC approach includes a sophisticated set of 25 Micro factors in six Micro domains of Investors, Employees, Environment, Suppliers, Customers, and Society and are the core of the approach to Best-in-Class investing.

2005 -- Engagement Embedded in the Research Process. Our Engagement activities began at the outset of our in-house ESG research in 2005. Engagement arose from our dialogues with companies to obtain additional information. Our direct engagement with companies has grown organically over the years; for Candriam, Dialogue is synonymous with ESG Research.

2006 -- Founding Signatory of the UN Principles for Responsible Investing. Candriam was present at the birth of the PRI. Candriam has been participating in industry working groups and sustainable investing organisations since 2003.

2008 -- Emerging Markets ESG Investing. We believe that analysing ESG issues in Emerging Markets requires a different approach to accommodate the lower levels of information and transparency, as well as lower levels of issuer and investor experience with ESG factors.

2009 -- Best-in-Universe country screening established. Our analysis of sovereign and related issuers, based on the four pillars of Human Capital, Natural Capital, Social Capital, and Economic Sustainability, includes 23 sub-categories and 75 themes.

2010 -- First Steps of ESG Integration -- In 2010, following the controversial armaments exclusions firm-wide, Candriam decided to apply its SRI screening to its indexed fund range and start ESG integration.

2016 --- Engagement: from Initiation to Influence. In 2016, we significantly increased our commitment by dedicating a group of our experienced Sustainable Investing professionals to full-time coordination of our decade-long efforts. Currently, we are putting our Engagement efforts behind three 'Conviction Topics': Corruption, Energy Transition, and Well-Being at Work.

2017 --- Responsible Investing in Emerging Market Debt and High Yield Debt. In 2017, our expansion of our ESG included SRI Bond Emerging Markets, and SRI Bond Global High Yield. Five Candriam SRI funds were

awarded AFNOR Certifications by the French-government-backed organization, making our High Yield fund the first to receive an SRI label.

2017 – Helping to Train the Next Generation of Responsible Investors – In October, 2017, Candriam launched the Academy for Sustainable and Responsible Investing. The **Candriam Academy** aims to raise awareness, promote education, and improve knowledge of sustainable investing via an innovative and accredited online educational platform.

2018 --- Launch of Fossil Free funds. Launch in September 2018 of two Candriam Fossil Free funds to support investors moving towards carbon neutrality.

2018 --- Exclusion of Thermal Coal and Tobacco from *all* investments. In 2018, all Candriam strategies divested from companies with more than 10% of their activities in thermal coal, and from any companies which initiate new thermal coal projects, based both on stranded asset and sustainability considerations¹. Candriam also divested from any companies with more than 5% of their activities stemming from tobacco. These exclusions demonstrate our commitment to both investment performance and responsibility.

2019 --- Launch of Climate Action strategy. Launched in May 2019, the fund invests in companies providing tangible solutions in terms of mitigation and adaptation to Climate Change.

2019 and beyond – Holistic Integration of Sustainability in Finance. In 2019 and beyond, we plan to continue not only to innovate new Sustainable investment products, but to increasingly integrate ESG and sustainability factors in all our investments, drawing on our more than two decades of experience in responsible investing.

2.3. How does the company formalise its sustainable investment process?

Responsible Investment Policy – We have actively incorporated ESG analysis in our investing since 1996.

At Candriam, we believe that a company's long-term value is not purely measurable by purely financial metrics. By evaluating ESG criteria, investors can identify additional factors which affect a company's long-term value.

ESG considerations are central to Candriam's investment philosophy. To this end, Candriam's company-wide controversial activities policy integrates ESG factors including exclusions on controversial weapons, thermal coal and tobacco.

The policy is applicable to all funds for which Candriam has the full discretion as management company and investment manager. Except if otherwise agreed between the relevant parties, the following portfolios are therefore excluded from the scope of this policy:

- Funds for which Candriam is the Management Company but has delegated the investment management activity to another entity.
- Funds for which Candriam is not the Management Company but has received the investment management activity through a delegation by another entity.
- Third party discretionary portfolio mandates managed by Candriam.
- Fund of Funds managed by Candriam where the underlying funds are not managed by Candriam.

For additional information, please find Company-Wide Controversial Activities Policy published on our website:

<https://www.candriam.fr/siteassets/medias/publications/201906-new-cap-final.pdf>

In addition to publishing our Transparency Codes, Candriam formalises its sustainable investment process through publishing its Engagement and Proxy Voting Policies:

<https://www.candriam.be/49648e/siteassets/medias/publications/brochure/commercial-brochures/sri-brochure/stewardship-policy-2019.pdf>

¹ Please refer to 2.3 for the scope covered.

https://www.candriam.be/496468/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxy-voting-policy_2018.pdf

Responsible Practices at Candriam - Sustainability is embedded in Candriam's business model and forms an essential part of our culture. We are committed to incorporating the global trends that will shape tomorrow's world in our strategic business choices and our daily life. We balance responsible behaviour towards our stakeholders with the synergies between our ESG and traditional financial investment activities, as well as with our role in environmental and societal stewardship.

We offer transparency through our annual review of our own internal Environmental, Social, and Governance practices, and the results are published in our annual Corporate Sustainability Report (CSR). Candriam's CSR lists our concrete achievements and our 'deliverables' in our commitment to develop our own company responsibly. The latest version is available on our corporate website at <https://www.candriam.com>.

Commitment at all levels is essential. Our Group Strategic Committee regularly assesses our relevant sustainability challenges to determine how Candriam should manage our stakeholder relations and how we should attune our business model and practices to all of these long-term challenges.

2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?

Candriam considers that a company's long-term value is not solely influenced by financial criteria such as income or growth in the operating margin. By incorporating environmental, social and governance (ESG) criteria, we identify other factors liable to influence a company's value and competitiveness over the medium and long term. Within the analysis of Environmental factors, we take into account a company's exposure and strategy in terms of Climate Change.

The inclusion of ESG factors rounds out the assessment of risks incurred by issuers. These risks can be broken down into four categories:

- **Operational risk:** risk of losses stemming from a failure or inadequacy in an institution's procedures, staff, internal systems or due to external events.
- **Reputational risk:** risk of loss in enterprise value stemming from the materialisation of a risk, affecting the perception of the company held by its clients, shareholders, counterparties, regulators or investors.
- **Strategic risk:** risk of losses stemming from an actual or potential risk, affecting capital and profit, and resulting from changes in business model or adverse commercial decisions, a lack of responsiveness to a market development, or the inappropriate implementation of decisions.
- **Financial risk:** risks arising from banking and financial activities, predominantly including foreign exchange, interest rate and liquidity risks.

More specifically, climate change is a source of financial and reputational risk for investors. There are two types of climate risks: physical risks and risks associated with a transition to a low-carbon economy.

Physical risks

Physical risks cover immediate material and financial aspects, as well as operational aspects (e.g. production halts, water scarcity) and reputational aspects (e.g. conflicts with local populations, major migratory flows).

Transition risks

Searching for solutions to climate change issues can generate risks and opportunities for some sectors/companies. In particular, these risks cover:

- Changes in prices of energy resources and energy efficiency, with the added drawback of leaving companies with stranded assets:

- Reduction of renewable energy costs, and increase in supply of renewable energies, have driven down demand for the highest-polluting energies (with coal in the lead);
- Reserves of the highest-polluting energies may end up never being used, forcing the owners to write them off.
- Changes in anti-pollution tax systems and more restrictive carbon markets, driving up prices of CO2 per metric ton;
- Financing risk for companies active in high-polluting sectors or involved with obsolete energy activities:
- This risk has arisen due to the growing preference of clients and other stakeholders for energy transition financing and associated risks.

Type of Risks

RISKS	OPERATIONAL	REPUTATIONAL	STRATEGIC	FINANCIAL
Physical risks	✓	✓		
Transition risks <i>- asset value</i>			✓	
Transition risks <i>- legal and market constraints</i>	✓		✓	✓
Transition risks <i>- financing/funding</i>		✓		✓

Climate Risks

Candriam decided to exclude companies on a firm-wide level displaying more than 10% in thermal coal activities and those launching new projects in order to take into account potential stranded assets linked to climate change.

At Candriam, the inclusion of ESG criteria is the first step in the responsible investment process. Candriam’s SRI analysis is designed to select those issuers that best manage the challenges related to sustainable development, including climate change and energy transition.

All these issuers form the SRI universe. The investment portfolios are then compiled from this SRI universe and in accordance with analysts’ recommendations. This rigorous investment process ensures that short-, medium- and long-term ESG and financial risks and opportunities are taken into account and thus adds value to the investment as it enables the selection of issuers best positioned both from a financial point of view and from a sustainable-development point of view.

To help investors manage the risks associated with climate change and to take advantage of the opportunities presented by the transition to a low-carbon economy, Candriam offers investment solutions such as

- Excluding exposure to coal or the highest-polluting activities
- “Low-carbon” solutions

- Investment in green bonds
- Thematic Strategies, including Climate Change

These investment solutions are offered after reviewing the portfolio in terms of carbon footprint/exposure to fossil fuels and the portfolio's exposure profile in terms of energy mix with respect to the 2-degree global warming scenario. These solutions are developed in accordance with the financial risk/reward targets specific to the portfolio under analysis.

For more information, visit our website <https://www.candriam.com/en/professional/market-insights/article-173>

2.5. Which Teams are involved in the company's sustainable investment activity?

Candriam launched its first SRI fund in 1996. For more than 20 years now, the company has developed expertise in ESG analysis thanks to its **dedicated ESG Team**. The team comprises analysts who specialise in specific sectors, sovereign analysis and active engagement activities. The team has developed its own ESG analysis methodology applied to governments, corporations and supranational agencies/organisations.

For the majority of our SRI strategies (i.e. strategies based our proprietary Best in Class approach), the ESG analysts determine the SRI investment universe for the portfolio manager teams. The **portfolio managers** then apply their respective investment processes and select issuers from this SRI universe. For specific strategies (cfr. The Candriam SRI Equity Climate Action strategy), the eligibility of issuers is determined in conjunction with the investment teams.

Furthermore, in order to enhance synergies between the ESG Team and portfolio management teams, **one or more portfolio managers/analysts on each portfolio management team are designed as "SRI Ambassadors."** The ESG analysts regularly take part in Portfolio Management Committees and on a quarterly basis the SRI ambassadors and ESG Team discuss ongoing projects and exchange ideas on ESG themes.

2.6. How many employees are directly involved in the company's sustainable investment activity?

There are 38 employees directly involved in the company's sustainable investment activity.

2.7. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility <input checked="" type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input type="checkbox"/> ICCR – Interfaith Center on Corporate Responsibility	<input checked="" type="checkbox"/> CDP – Carbon Disclosure Project <i>(including Climate Change, and Water and Forest programmes)</i> <input type="checkbox"/> Climate Bond Initiative <input checked="" type="checkbox"/> Green Bond Principles <input type="checkbox"/> IIGCC – Institutional Investors Group on Climate Change	<input checked="" type="checkbox"/> Access to Medicine Foundation <input checked="" type="checkbox"/> Access to Nutrition Foundation <input checked="" type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input checked="" type="checkbox"/> Other <i>-Please refer to the section below for further information</i>	<input type="checkbox"/> ICGN - International Corporate Governance Network <input checked="" type="checkbox"/> Other <i>-Please refer to the section below for further information</i>

<input checked="" type="checkbox"/> National Asset Manager Association (RI Group) <input checked="" type="checkbox"/> PRI - Principles For Responsible Investment <input checked="" type="checkbox"/> SIFs - Sustainable Investment Fora <input checked="" type="checkbox"/> Other <i>-Please refer to the section below for further information</i>	<input checked="" type="checkbox"/> Montreal Carbon pledge <input checked="" type="checkbox"/> Paris Pledge for Action <input type="checkbox"/> Portfolio Decarbonization Coalition <input checked="" type="checkbox"/> Other <i>-Please refer to the section below for further information</i>		
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As a responsible asset manager, the United Nations Principles for Responsible Investment are an important initiative to support.

We are proud to have been one of the first signatories to the UN-PRI. The PRIs are a voluntary initiative aimed at encouraging investors to include ESG (Environmental, Social & Governance) considerations in their investment decisions.

The most recent version of the PRI Report is available on the PRI website:

<https://www.unpri.org/signatory-directory/>

Candriam has undertaken to observe and promote SRI principles, having signed a number of initiatives applicable to its activities as an investment firm:

COMMITMENTS	E-S-G	JOINED IN/ SIGNED IN	DESCRIPTION	CANDRIAM'S COMMITMENTS
PRI - Principles for Responsible Investment	 ESG	2006	PRI	PRI Public Transparency report Top A+ PRI score for our RI approach & policies
UNGC Call to Action on anti-corruption	 G	2014	UNGC Call to action on anti-corruption	
G20 Energy Efficiency Investor Statement	 E	2015	G20 Energy Efficiency Statement	
Montreal Carbon Pledge	 E	2015	Montreal Carbon Pledge	Montreal Carbon Pledge - Statement
Paris Pledge for Action	 E	2015	Paris Pledge for Action	
UK Stewardship code	 ESG	2016	Financial Reporting Council - FRC	The UK Stewardship Code Tier 1 rating
Investor Statement on ESG credit ratings	 ESG	2017	Statement on ESG credit ratings	
Adhesion to Green and Social Bond Principles	 ES	2017	Green and Social Bond Principles	
Tobacco-Free Finance Pledge	 S	2018	The Tobacco-Free Finance Pledge	
The investor Agenda	 E	2018	The Investor Agenda	Controversial Activity Policy
Commitment to support a just transition on climate change	 ESG	2018	Climate change the just transition	

In 2018, Candriam signed new initiatives in-line with our newly adopted Controversial Activities policy, which extended our exclusion policy to thermal coal and tobacco. Candriam considers these two activities incompatible with sustainable and responsible development and a source of value-related risks with potential stranded assets.

Candriam is also a member of numerous collaborative engagement initiatives designed to encourage – collectively, within investor groups – companies to improve their practices as well as communication and transparency in terms of sustainable development challenges.

The table shows collaborative initiatives active in 2018 as well as their impact and Candriam’s contribution towards these initiatives.

COLLABORATIVE INITIATIVES Initiatives for a call to action	E-S-G	JOINED IN/ SIGNED IN	IMPACT	OUR CONTRIBUTION	
CDP - Carbon Disclosure Project (incl. Climate Change, Water and Forest programs)	E	2004	2018: over 7,000 companies responded	Lead investor on over 40 companies to encourage them to fill in the questionnaire.	
Sustainable Stock Exchanges	ESG	2010	Engagement with IOSCO, the International Organization of Securities Commissions, which released a statement on disclosure of ESG matters by issuers in January 2019.	• Support to SSE during engagement with IOSCO	
Access to Medicine (AtM)	S	2010	20 of the world’s largest research-based pharmaceutical companies analysed and ranked : 2018 AIM index launch.	• Letters’ co-signer & Lead for one target company • Active exchanges with companies	
Access to Nutrition	S	2013	• Release of the 2018 Global Access to Nutrition Index and the first US Spotlight Index • Start of the related engagement campaign	• Letters’ co-signer & Lead for one target company • Active investor for 1 extra company on Breast Milk Substitutes marketing practices	
Bangladesh Initiative on garment industry	S	2013	• Improvement of local practices at garment practices (The Accord) • Support to The Accord for mission’s continuity	• Statements’ & Letters’ co-signer to companies, OECD and authorities • Active engagement with 15 companies to encourage them to join or support The Accord	
Sustainable Palm Oil practices	E	2015	Investor letter to the Roundtable on Sustainable Palm Oil (RSPO) in March 2018 regarding the need for a more transparent and responsive complaints mechanism to uphold its labor standards.	Signatory	
Labour practices in agricultural supply chain	S	2016	Disclosure improvement at several target companies. Areas of improvement clearly remain however. Initiative to be completed in 2019.	• Co-lead investor for two corporates, supporting investor for one.	
Fiduciary Duty in the 21st Century	ESG	2017	• Report publications	Signatory	
Engagement on antibiotics overuse in livestock supply chains"	ES	2017	• Number of target companies doubled since 2016 ; 80% of these has a publicly available policy on antibiotics.	Letters co-signer.	
Sustainable Protein Engagement	E	2017	Growing understanding of the issue but only few companies with a clear and structured strategy.	• Letters co-signer. • Co-lead investor for 2 corporates	
Global Investor Statement on climate Change	E	2011	Letters	Signatory	
Workforce Disclosure Initiative	S	2017	Extension of target scope, increased support to companies for filling the questionnaire.	• Letters co-signer. • Co-lead investor for 7 corporates	
Banking on a Low Carbon Future	E	2017	Regional deep dive	• Letters co-signer. • Participation to group calls	
Engagement on Cybersecurity	SG	2017	More than 60% of the 64 initial target companies accepted to engage.	• Letters co-signer. • Lead investor on 1 corporate • Participation to exchanges with several corporates	

Expectations on Corporate Climate Lobbying		E	2017		Signatory	
Decarbonisation Initiative (incl. RE100 & EP100 Engagement)*		E	2017	60 additional companies targeted. Positive evolution for one third of the 150 companies involved.	Letters co-signer.	
Combating Child Labour in Cocoa Supply Chains		S	2017	Progress report release. 3 companies committing to elimination of child labour in cocoa production.	<ul style="list-style-type: none"> Statement co-signer to companies and related stakeholders Active investor for 1 company 	
Corporate Tax Responsibility		G	2017	50% of the 39 targeted companies accepted to engage.	<ul style="list-style-type: none"> Letters co-signer. Lead investor on 2 corporates Participation to exchanges with several corporates 	
Climate Action 100+		E	2017	Over 250 focus company engagements have taken place	Active supporting investor for 5 corporates	

In 2018, we joined 10 new collaborative initiatives as described in the table below:

COLLABORATIVE INITIATIVES		E-S-G	IMPACT
Initiatives for a call to action			
Climate change transition for oil and gas		E	Affiliated with the Climate Action 100+ with an exclusive focus on oil & gas companies.
BBFAW Investor Collaboration on Farm Animal Welfare		ES	Engagement with the 110 companies covered by the Business Benchmark on Farm Animal Welfare (BBFAW) to recognize the importance and materiality of the topic to encourage companies to use the benchmark.
PRI Water risks in agricultural supply chains		E	Encourage companies to implement appropriate policies and measures to migrate water risks and impacts and promote public disclosure.
Plastic Solutions Investor Alliance		E	Call global consumer companies for a reduced usage of plastics, improved collection and recycling channels, and development of sustainable alternatives to plastic packaging.
UK Living Wage Engagement Campaign		S	Initiative to encourage all FTSE 100 companies to apply Living Wage standards in their UK operations. Focus on UK companies and low-paid staff.
PRI supported engagement on responsible sourcing of cobalt		ES	Seek to improve companies' performance and impact in terms of human right risk assessment and impact monitoring including ground remediation.
Corporate Accountability for Digital Rights		SG	Calls on the 22 ICT companies covered by the Ranking Digital Rights (RDR) Corporate Accountability Index to respect human rights and refer to that index to help them improve their governance systems.
Investor Statement to EU Policymakers on the future of Corporate Reporting		ESG	Call on EU policymakers to implement a fit-for-purpose framework of corporate reporting that is consistent with investor information needs.
Investors call on power companies to accelerate decarbonisation and support ambitious climate policy		E	Letter sent to power companies to encourage them to accelerate decarbonisation and support ambitious climate policy within the Climate Action 100+ initiative.
Open Letter to index providers on controversial weapons exclusions		SG	Letter sent to index providers asking them to exclude controversial weapons from global indices.

Candriam also participates in sustainable development working groups within professional and other organisations, in order to raise awareness in the industry of the importance of integrating ESG issues. This gives us an excellent viewpoint on discussions and trends in today's market. An overview of the main working groups in which we participate is provided below:

	NAME OF ASSOCIATION	Joined in
SRI WORKING GROUPS WITHIN ...	BEAMA Belgian Asset Managers Association	2002
	AFG Association Française de la Gestion financière	2003
	EFAMA European Fund and Asset Management Association	2010
SEVERAL SOCIAL INVESTMENT FORUMS, SUCH AS:	VBDO Dutch Sustainable Investment Forum	2007
	FNG Forum Nachhaltige Geldanlagen (Germany, Switzerland & Austria)	2010
	SSF Swiss Sustainable Finance (Switzerland)	2014
	FIR Forum pour la Finance Responsable (French SIF FIR)	2014
	FFS Forum per la Finanza Sostenibile (Italy)	2015
	UKSIF United Kingdom Sustainable Investment Forum	2016
	US SIF United States Forum for Sustainable & Responsible Investment	2016
	SUSTAINABLE DEVELOPMENT INFORMATION CENTRES	ABIS Academy of Business in Society

Furthermore, every year, we organize, for our clients, thematic conferences at which we present and discuss our view of the latest SRI market trends and some of our expertise. Private events – requested by our clients, by New York Life or by our teams – are also organized.

Candriam strives to ensure that ESG issues and sustainable investments are brought to the fore. This was the case when Candriam organized in June 2018 its Annual Investor Seminar focused on “Sustainable Growth” and its International Media Seminar in October 2018. In 2019, Candriam’s Investor Seminar on also placed the spotlight on sustainable topics such as, the “Green Revolution” and investing in a 1.5°C world.

In addition to these, and besides press interviews, Candriam shares its SRI expertise as a regular speaker at key SRI conferences in Europe and abroad. The main public events we took part in as speakers in 2018 are listed below.

ORGANISATION ENTITY	Country	Date	Subject
THE EUROPEAN SUSTAINABLE INVESTMENT FORUM	France	Mar-18	The search for Growth. Wealth, Investments and Regulation
GENEVA FORUM FOR SUSTAINABLE INVESTMENT	Switzerland	May-18	Impact Investing Conference Roundtable: Impact investing and dialogue with companies: demystification of impact's measures
BUSINESS & CLIMATE SUMMIT	United Kingdom	Oct-18	Managing climate risks and capitalizing on opportunities
EFAMA ASSET MANAGEMENT INVESTMENT FORUM	Belgium	Nov-18	Roundtable: Sustainable finance and the role of asset managers
ABIS ANNUAL COLLOQUIUM	Belgium	Nov-18	17th abis Annual Colloquium <i>Sustainability as a Business Opportunity</i>
INSTITUT DES RÉVISEURS D'ENTREPRISES	Belgium	Nov-18	The Award for Best Belgian Sustainability Reports Workshop: <i>Non Financial Information Reporting, lessons learned from the new regulation</i>

2.8. What is the total number of SRI assets under the company’s management?

As of March 2019, the firm’s SRI assets under management totalled €38.5 billion.

2.9. What is the percentage of total SRI assets under the company's management?

As of March 2019, the firm's SRI assets under management represented 31% of total AuM.

2.10. Which are the SRI funds publically managed by the company?

In accordance with legal requirements, please refer to our website to access information regarding specific funds in our SRI fund range available in your jurisdiction and information on the corresponding Transparency Code:

- **Belgium:**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/belgium-transparency-codes-fund-registration-table.pdf>

- **Austria:**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/austria-transparency-codes-fund-registration-table.pdf>

- **France:**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/france-transparency-codes-fund-registration-table.pdf>

- **Germany**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/germany-transparency-codes-fund-registration-table.pdf>

- **Ireland**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/ireland-transparency-codes-fund-registration-table.pdf>

- **Italy**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/italy-transparency-codes-fund-registration-table.pdf>

- **Luxembourg**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/luxembourg-transparency-codes-fund-registration-table.pdf>

- **Netherlands**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/netherlands-transparency-codes-fund-registration-table.pdf>

- **Switzerland**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/switzerland-transparency-codes-fund-registration-table.pdf>

- **United Kingdom**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/uk-transparency-codes-fund-registration-table.pdf>

3. General information about the SRI fund(s) that come under the scope of the Code

3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?

Candriam considers that a company's long-term value is not solely influenced by financial criteria such as income or growth in the operating margin. By incorporating environmental, social and governance (ESG) criteria, we identify other factors liable to influence a company's value and competitiveness over the medium and long term, which are not always immediately obvious in traditional financial analyses. External factors such as CO2 costs or health and safety standards affect most companies and issuers, either positively or negatively, when integrated into their economic model. Some factors offer a new opportunity while others are considered a threat to the business model.

3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

The ESG Investments & Research Team has developed its own ESG methodology applied to governments, corporations and supranational agencies/organisations. The portfolio managers then apply their respective investment processes and select issuers from this SRI universe. The ESG Analysts use internal and external research to feed their models.

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

Please find below an overview of the external ESG data providers used by the Team:

Rating Agencies	Certification	Scope	Types of Screening	Link
MSCI ESG Research	-	International Companies	ESG Criteria – Controversial Activities – Norms-based Criteria	https://www.msci.com/esg-integration
Vigeo-Eiris	Arista	European Companies	ESG Criteria – controversial activities – Norms-based criteria	http://www.vigeo-eiris.com/
		Governments – World	ESG Criteria	
ISS-Ethix	-	Emerging Markets Companies	Norms-based Criteria	https://www.issgovernance.com/home/iss-ethix/
		International Companies	Screening criteria used to exclude the weapon industry	
S&P Trucost	-	International Companies	Environmental Data Greenhouse gas emissions, energy mix, percentage of exposure to fossil fuels	https://www.trucost.com/

Sustainalytics	-	International Companies	ESG Criteria – Controversial Activities – Norms-based Criteria	https://www.sustainalytics.com/
Wood Mackenzie	-	International Companies	Energy and mining sectors screening used to exclude unconventional extractions and thermal coal	https://www.woodmac.com/

Furthermore, we also source information from academic experts, sector federations, the media, and NGOs. Examples of NGOs used in analysis include:

- **Freedom House:** measure of freedom and democracy, understood via electoral process, political pluralism, functioning government, rule of law etc. (<https://freedomhouse.org/>)
- **Fraser Institute:** measure of human freedom, understood as the absence of coercive constraint (<https://www.fraserinstitute.org/>)
- **Transparency International (CPI):** measure of public sector corruption. (<https://www.transparency.org/>)

Lastly, our ESG analysts obtain information from various International Organizations, which are either an integral part of the Best-In-Universe framework or serve as additional information in analysis. Examples of International organizations include: World Bank, IMF, World Health Organization, UN Programme for the Environment, International Labour Organisation, United Nations Development Programme, United Nations Organisation Food and Agriculture Organisation.

3.3. What ESG criteria are taken into account by the fund(s)?

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

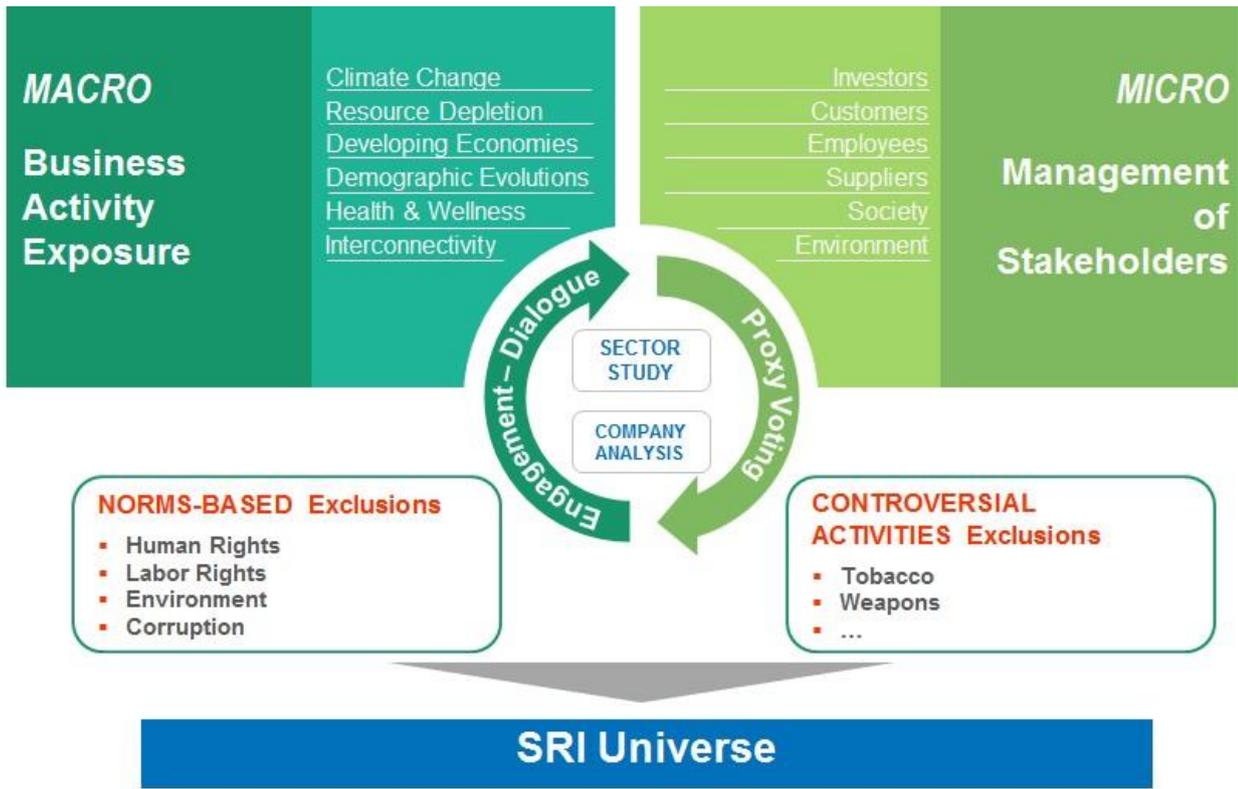
In order to take into account the stakes and challenges specific to each issuer in terms of ESG, Candriam has developed an internal SRI analysis process by type of issuer:

- companies issuing equities and/or bonds;
- countries, i.e., public bond issuers such as public organisations²
- supranational organisations issuing bonds.

BASIC PRINCIPLES OF SRI ANALYSIS FOR COMPANIES ISSUING EQUITIES AND/OR BONDS

In the interest of selecting the best positioned companies in each sector in terms of ESG challenges, Candriam has established a structured and rigorous three-step SRI analysis procedure as shown in the diagram below:

² The group of public issuers comprises public organisations at several administrative levels, ranging from local to national/federal institutions. We apply the "top-of-the-pyramid" rule when selecting these institutions: if the SRI analysis of a country is positive, then all public organisations in that country will be deemed eligible, and thus considered to be amongst the best positioned public issuers in terms of ESG aspects. We also verify the mission of the organisation to ensure it is aligned with sustainable practices.



- **Best-in-Class Analysis**

The **Best-in-Class Analysis** of companies consists in evaluating their ability to manage the sustainable development issues specific to their sector. These are addressed from two separate, but related, perspectives, namely, from a Macro-Analysis, and from a Micro-Analysis, perspective.



Macro-Analysis evaluates the company's exposure (services/products, production areas, market segments, etc.) to the **major sustainable development challenges**. These challenges are long-term trends liable 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.

Candriam has identified six major challenges: Climate Change, Resource Depletion, Demographic Evolution, Interconnectivity, Health and Wellness, and Developing Economies.

Micro-Analysis evaluates a company's ability to incorporate **stakeholder** (customers, employees, etc.) **interests** into its long-term strategy, insofar as they are a source of risks and opportunities for the company.

- **Norms-Based Analysis**

Secondly, Candriam performs a **norms-based analysis** of each company. The purpose of this analysis is to determine whether the company is observing the principles of the United Nations Global Compact. These principles cover four main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti-Corruption (COR), as defined below:

Area	Principles
Human Rights	Businesses should: <ol style="list-style-type: none"> 1. Support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human rights abuses.
Labour Standards	Businesses should: <ol style="list-style-type: none"> 3. Uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. Eliminate all forms of forced and compulsory labour; 5. Abolish the child labour; 6. Eliminate discrimination in respect of employment and occupation.
Environment	Businesses should: <ol style="list-style-type: none"> 7. Support a precautionary approach to environmental challenges; 8. Undertake initiatives to promote greater environmental responsibility; and 9. Encourage the development and diffusion of environmentally friendly technologies.
Anti corruption	Businesses should: <ol style="list-style-type: none"> 10. Work against corruption in all its forms, including extortion and bribery.

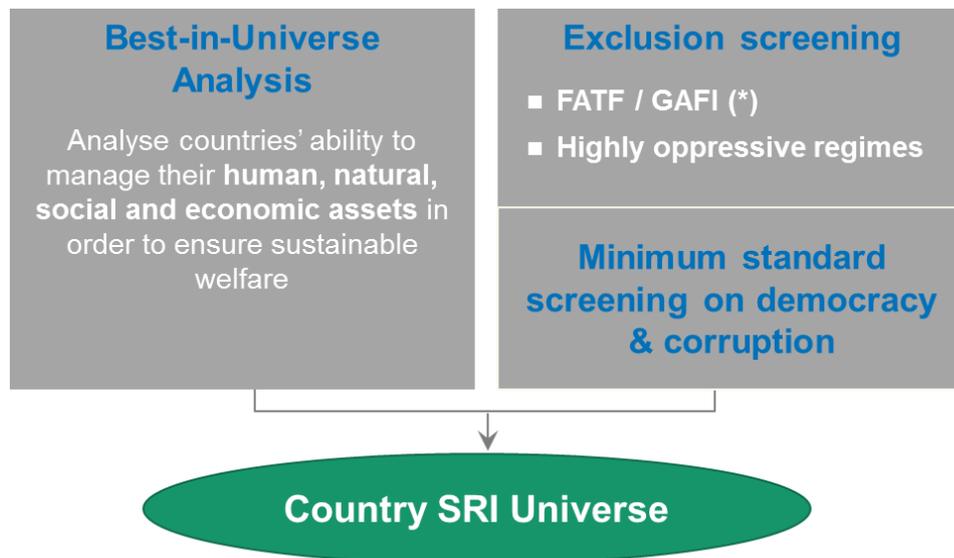
- **Verification of exposure to the weapons industry and other controversial activities**

The **verification of exposure to the weapons industry and to any other controversial activities** is the last step in the SRI analysis of each company.

This step consists in evaluating the company's involvement in the weapons industry and other controversial activities involving, for example, adult content, alcohol, gambling, GMOs, nuclear power, animal testing, thermal coal, activities exercised in oppressive regimes as well as unconventional and conventional oil & gas exclusions.

BASIC PRINCIPLES OF SRI ANALYSIS FOR COUNTRIES, I.E. PUBLIC BOND ISSUERS SUCH AS PUBLIC ORGANISATIONS AND OTHERS

In the interest of selecting the most sustainable and responsible public issuers, Candriam has established a structured and rigorous 2-step SRI Best-in-Universe analysis procedure as shown in the diagram below :



(*) FATF or Financial Action Task Force
GAFI ou Groupe d'Action Financière

The purpose of the **Best-in-Universe Analysis** is to evaluate each country's ability to properly manage their sustainable development matters. This means ensuring the well-being of the population and economic prosperity without compromising the ability of future generations to benefit from the same. To this end, the approach is based on the belief that investing in **human capital** (work, knowledge and health), while properly managing **natural resources** and **social capital** (legislation, institutions and social cohesion) and ensuring **economic** sustainability allows the country to develop sustainably, which, in the long term, generates economic growth and actively promotes social well-being.

In our analytical tree, these four pillars are broken down into 23 sub-categories, which are in turn divided into 75 themes. The four pillars of the Best-in-Universe Analysis for countries are equally weighted. Within each pillar, the weighting of the sub-categories is based on their cross-disciplinary impact throughout the entire evaluation.

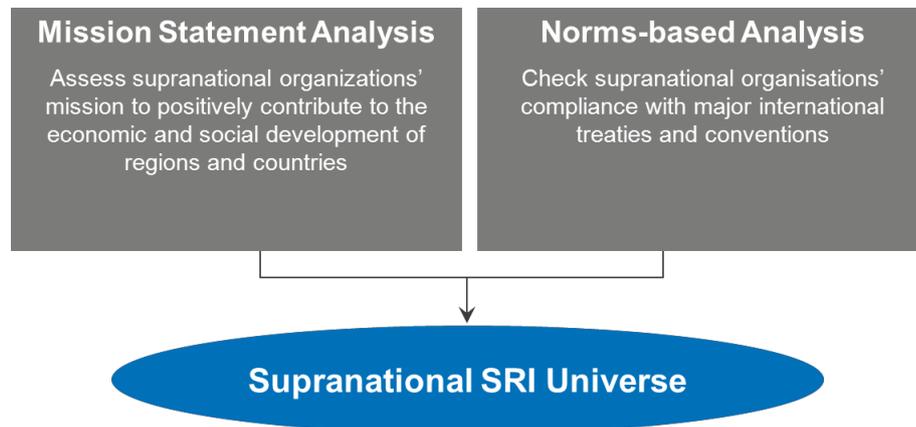
Our country-evaluation process includes an assessment of two aspects of each theme: government strategy and performance:

- Strategy: governments are evaluated in terms of the engagements and policies they implement to meet their engagements (creation of institutions, definition of policies, allocation of budgets).
- Performance: country performances are evaluated over time and relative to other countries. Countries can either develop and strengthen the assets making up their portfolio or weaken them or (at worst) destroy them.

Furthermore, the analyst team carries out a minimum standard screening on democracy and corruption for each country. Finally, countries are excluded from the SRI universe if they do not comply with Financial Action Task Force (FATF/GAFI) recommendations or when they are considered as a highly oppressive regime or when they support highly oppressive regimes.

BASIC PRINCIPLES OF SRI ANALYSIS FOR SUPRANATIONAL ORGANISATIONS ISSUING BONDS

In the interests of selecting supranational organisations with good ESG practices, Candriam has established a structured and rigorous 2-step SRI analysis procedure as shown in the diagram below:



The purpose of the **Mission Statement Analysis** is to exclusively select supranational organisations whose mission makes a positive contribution to the economic and social development of regions and countries. Most of today's supranational organisations meet this condition due to the very nature of their activities. In other words, the large majority successfully pass our screening process.

We also perform a **norms-based analysis** of supranational issuers. With respect to companies, the purpose of this analysis is to determine whether or not the supranational organisation observes the 10 principles of the United Nations Global Compact and, more specifically, the 4 main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti-Corruption (COR), as defined above.

This analysis aims to eliminate supranational organisations that significantly and repeatedly fail to observe any of the 10 basic principles.

3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?

- **Corporate Issuers**

Candriam believes investment opportunities and risks cannot be fully evaluated using traditional financial metrics alone. We believe that taking into account ESG criteria is a source of long term value and risk mitigation that cannot be fully captured by traditional financial analysis. To this end, our ESG framework assesses the risks and opportunities to create value through integrating Macro and Micro sustainability factors within their operating and financial managerial processes.

The Macro-Analysis evaluates the company's exposure (services/products, production areas, market segments, etc.) to the major sustainable development challenges. These challenges are long-term trends liable 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. Candriam has identified six major challenges: **Climate Change**, Resource Depletion, Demographic Evolution, Interconnectivity, Health and Wellness, and Developing Economies.

The Micro-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. These six categories of stakeholders

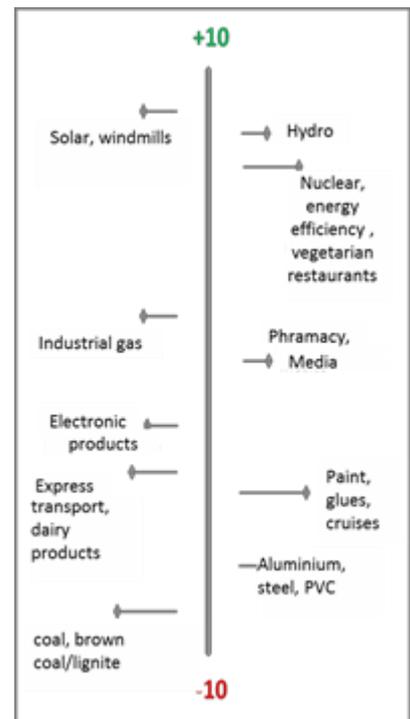
include Investors, Employees, Customers, Suppliers, Society, and the **Environment**. They are assessed through an analysis of 14 sub-categories covering 32 themes.

To this end, we assess climate change risk and opportunities in both of our Micro and Macro analysis. In this top-down approach, we assess a company's **business model** exposure to **climate change** through the Macro analysis. Conversely, in the Micro approach, we assess the way an organization **operates to its natural surroundings** to conduct its activities.

Please find below further information on the Climate Change and Environment assessments in the Macro and Micro analysis respectively:

Macro Analysis: Climate Change Challenge

Climate change is considered to be a major and substantial challenge in sustainable development. Accordingly, it is assessed in all sector models and is a major source of risk (thus attributed a negative score) for high-impact sectors such as energy, transport and materials. In the course of this assessment, the impact of various activities is estimated and factors in greenhouse gas emissions from the source to final consumption (i.e. Scopes 1, 2 and 3). Based on this estimate, the impacts for each activity are ranked, as described opposite, on a scale from -10 to +10. The measurement of the impact itself is based on the company's exposure, according to revenue earned by the activity, except for the energy and utilities sectors, where it is based on fossil fuel reserves and installed capacity, respectively.



Micro Analysis: Management of Environmental Relations

Exposure to environmental management risks and opportunities is especially significant for high-impact sectors such as energy, materials, utilities, automotive and real estate. In the course of analysing environmental management, other issues such as air pollution are also covered, including: energy use, biodiversity, soil use, waste and recycling, water consumption and the environmental impact of products.

Examples in the Energy sector

• **Strategies implemented**

- Environmental impact of new projects before launch;
- Projects in renewable energy, energy efficiency;
- Variable pay granted to executive managers based on environmental performances;
- Technologies and measures used to prevent leaks in oil pipelines (fibre optic cables to detect leaks, pressure monitoring).

• **Performances**

- Energy mix and CO2 emissions;
- Oil leakage rate < sector average;
- Gas flaring rate < sector average;
- High % of OHSAS 14001-certified sites.

Furthermore, we apply a norms-based and controversial activities filter to exclude companies which may represent high risk due to violation of international laws and non-sustainable activities. In the norms-based analysis, we determine whether companies respect the principles of the UN Global Compact, including the respect of Environmental norms.

Lastly, we believe that investing in companies significantly exposed to conventional and unconventional oil and gas activities is not compatible with the efforts towards an energy transition and represent financial risk in terms of stranded assets. To this end, we apply exclusion thresholds based on issuer revenues for these activities.

- **Sovereign Issuers**

Candriam's Best-in-Universe ESG framework is based on a holistic evaluation of each country's long term sustainable development potential, and the non-financial risks and opportunities that impact long term value creation. Environmental considerations, including climate change, are naturally embedded in the framework through the Natural Capital.

This pillar contributes 25% of the overall country score and assesses how a country is conserving and sustainably employing its natural resources, managing its interaction with global environmental issues and challenges such as Climate change, its consumption of natural resources including fossil fuels, its biodiversity stewardship and its handling of waste materials. This analysis aligns with, among others, the SDGs: Goal 6: Clean Water, Goal 12: Responsible Consumption and Goal 13: Climate Action.

More specifically, Climate change is assessed in the Natural Capital's sub-domain "Energy & Climate Change". This sub-domain encompasses 40% of the Natural Capital score. Energy and Climate Change sub-domain comprises the following themes, with the respective weights, adding up to 100%:

- Climate Change: 40%
- Dependency on Fossil Fuels: 30%
- Energy Intensity: 20%
- Ozone Layer Depletion: 10%

The quantitative data for the model is sourced from the World Bank Open Data Platform. National reports and other sources are also used for qualitative analysis.

3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

ANALYSIS CRITERIA FOR COMPANIES ISSUING EQUITIES AND/OR BONDS

- [Best-in-Class Analysis](#)

The Macro-Analysis and Micro-Analyses used in the Best-in-Class Analysis of companies each include two parts: a sector review and an analysis of each company within its sector.

1. MACRO-ANALYSIS

For the **Macro-Analysis**, the SRI analysis determines whether there are relevant correlations between the sector activities (products offered, geographic location, etc.) and the 6 major sustainable development challenges (Climate Change, Resource Depletion, Demographic Evolution, Interconnectivity, Health and Wellness, and Developing Economies).

During the Macro-Analysis review of the sector, the analysts determine groups of companies with similar characteristics or business models (activity, geographic location, products/services, etc.) in a given sector. Next, they determine whether or not these groups are exposed to the major relevant challenges of their sector and how this is reflected (positively or negatively) in each of the 6 sustainable development challenges. For each relevant challenge, the impact is evaluated on a scale from -10 to +10.

For example, looking at the "Climate Change" challenge in the Transport sector, aviation would receive a more negative score than shipping, whereas, if we look at the "Health and Wellness" challenge in the Food sector, healthy food would receive a positive score while junk food would receive a negative score.



Based on the conclusions of the sector Macro-Analysis, all the company's exposures to the major sustainable development challenges specific to its sector are evaluated and scored. For each company, a Macro score is the sum of the 6 scores given for each major sustainable development challenge, ranging from -60 to +60. A negative score reflects the company's negative exposure to these major challenges while a positive score reflects positive exposure.

2. MICRO-ANALYSIS

For the **Micro-Analysis**, the SRI analysis evaluates the material risks and opportunities arising from the sector's interactions with its stakeholders (Customers, Employees, Investors, the Environment, Suppliers and Society). Relations with the six categories of stakeholders are assessed through an analysis of 14 sub-categories covering 32 themes, as shown in the table below.

Stakeholder Domains	Sub-Domains	Themes	
Employees	Employability	Diversity & discrimination	
		Training & career management	
		Responsiveness to change	
	Staff relations	Dialogue with employees	
		Working Conditions	Work time & flexibility
			Remuneration
Customers	Commercial practices	Health & safety	
		Anti-competitive practices	
	Quality & safety assurance	Commercial behaviour	
		Quality & safety assurance	
		Client relations management	
Suppliers	Sustainable relationships		
	Practices of suppliers	Working practices of suppliers	
		Environmental practices of suppliers	
Investors	corporate governance	Board accountability	
		Audit & reporting	
		Investors' right	
		Remuneration	
	Sustainable outlook	Sustainable governance	
		Sustainable business modes	
Society	Process-related social impacts	Long-term profitability	
	Product-related social impacts	Community Interactions	
		Site safety/security	
	Public authority relations	Access to products/services	
Environment	Process-related impacts	Public authority relations	
		Water consumption & emissions	
		Energy & climate change	
		Other atmospheric emissions	
		Land use & biodiversity	
	Product-related impacts	Raw materials & waste	
		Use	
		Disposal & recycling	

During the Micro-Analysis review of the sector, the material risks and opportunities arising from interactions with stakeholders are evaluated.

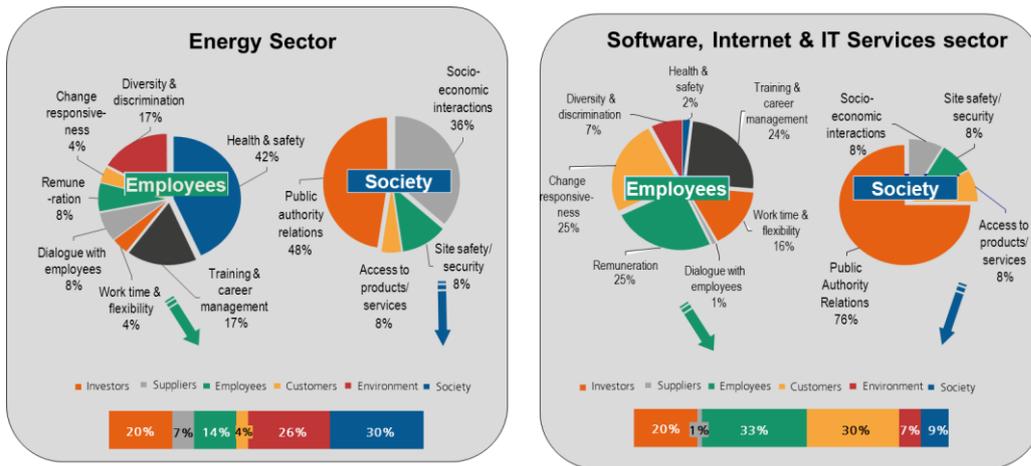
In order to build the model for the Micro-Analysis of the sector, the SRI analysis determines the relevance (weighting) of the various themes for the sector in question. Based on qualitative sector data and, where possible, on historical quantitative data, the relevance of each category is determined according to the frequency of interactions, their financial impact and future prospects.

- Frequency: the frequency of occurrence of certain events, such as accidents, fines, legal disputes or the publication of information briefs, and the degree of attention paid to stakeholders;
- Financial impact: the magnitude of the impact of an SRI issue on, for example, sales, margins and assets (tangible and intangible);
- Future prospects: the probability that the relevance of an issue will increase or decrease due to a change in frequency or financial impact over the next five years.

Once the relevance of each category is determined, weightings for each category and sub-category, as well as the relationship with the stakeholder, can be defined.

The following examples illustrate relevant, stakeholder-related themes :

- In the model for the Energy sector, the most important relations are those with the Environment and Society; in the model for the Software sector, relations with Employees and Customers are predominant;
- In "relations with employees", "health and wellness" is most important for the Energy sector, versus a weighting of 2% for the Software sector, for which "change management" and "remuneration" have the highest weightings.



- In the model for the Financial sector, special emphasis is given to governance in the stakeholder management analysis. Governance is one of the most important issues for financial institutions. We assess this aspect by analyzing the following:
 - Board structure: Independence, expertise of directors, etc.
 - Auditors rotation (mitigates conflict of interest)
 - Remuneration: is the remuneration aligned ?
 - Share capital (avoiding share dilution)

Furthermore, as part of our governance assessment, we incorporate the UNEP FI Principles. We verify if a bank is a signatory of the UNEP FI to assess its commitment towards the ESG issues. Although this is not a hard criteria for exclusion, we believe that banks that have committed to these principles are more prone to display stronger ESG practices.

A single category can be represented by different indicators, depending on their relevance to the sector in question. For example, the category "health and safety" of employees is primarily assessed by looking at safety conditions on oil platforms in the Energy sector, whereas, in the Software sector, it would be assessed by looking at workplace stress and ergonomics indicators.

For each theme addressed, the SRI analysis evaluates the strategies implemented by the company (relevance of the strategy developed, human and material resources allocated, pro-activity and follow-up) as well as the company's performances in each category relative to its competitors and the major trends in the sector.

The combination of this evaluation and the weightings for each category of stakeholder relations obtained from the sector Micro-Analysis give the overall Micro score (weighted average of the six individual stakeholder relations scores) for each company. The company's score ranges from 0 to 100

- **Norms-Based Analysis**

The norms-based analysis determines whether a company complies with the 10 Principles of the United Nations Global Compact for each of the main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti-Corruption (COR).

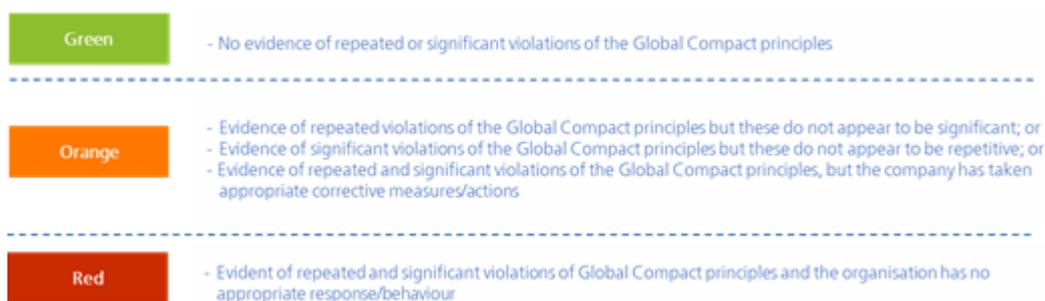
Information regarding actual, suspected and/or related incidents or breaches of international standards are collected through external research combined with internal analyses performed by our SRI analysts.

After identifying any breaches of the Global Compact principles, the analysis uses several parameters to evaluate the severity and magnitude of the breaches:

- **Temporal proximity:** when did the incident happen and how long did it last?
- **Magnitude:** what financial costs and environmental damage are related to the incident?
- **Credibility:** does the incident involve allegations, legal proceedings, etc?
- **Recurrence:** is this a one-off incident or is there proof of repeated incidents over a given period?

Emphasis is also placed on a company's response when an incident occurs. A company that takes positive, responsible measures to ensure that such a breach does not happen again is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

Based on this information and in accordance with the evaluation framework described above, the colour code is determined as follows for each of the four main categories.



For an issuer to be able to successfully negotiate the norms-based analysis filter, it must not have been attributed “red” in any of the four fields. This filter eliminates up to 4% of the companies analysed. The companies are permanently controlled and continuously updated.

- **Controversial Activities Screen**

A company's exposure to controversial activities is evaluated according to several parameters covering the following variables:

- **Type of involvement:** the type of involvement (direct or indirect) is taken into account for each company evaluated (owners and operators, manufacturers and producers, retailers and suppliers, product suppliers or providers of support services, etc.);

- **Degree of involvement:** this is based on an approach in terms of level of involvement and applied to all types of controversial activities. Production capacities or income stemming from such activities are generally used as key indicators.
- **Responsible policy:** in addition to the type and degree of involvement, it is important to look at how the company addresses and perceives its potentially controversial activities. Consequently, the presence (or absence) of an appropriate, targeted responsible policy is critical to the purpose of this analysis. This type of policy acknowledges the company's involvement in a controversial activity, but also the existence of systems and practices designed to ensure that the activity is carried out responsibly.

However, any companies exposed to the **weapons industry** are permanently excluded from the SRI universe if:

- they are involved in the manufacture or sale of anti-personnel mines, cluster bombs, depleted uranium weapons and/or chemical, nuclear or biological weapons, regardless of the income generated;
- derive more than 5% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of white phosphorous weapons; the 5% threshold is adopted in order to acknowledge the fact that phosphorous is a dual-use substance.
- more than 3% of their revenues is generated from the manufacture or sale of conventional weapons.

The exclusion thresholds for exposure to **other controversial activities** are shown in the table below:

Controversial Activities	Exclusion Thresholds
Activities in oppressive regimes	<ul style="list-style-type: none"> ■ Large presence in highly oppressive regimes ■ Revenues > 1%.
Adult content	<ul style="list-style-type: none"> ■ Revenues > 5%
Alcohol	<ul style="list-style-type: none"> ■ Revenues >10% without a responsible policy
Gambling	<ul style="list-style-type: none"> ■ Revenues > 5%
Nuclear	<ul style="list-style-type: none"> ■ Revenues > 30%
Tobacco	<ul style="list-style-type: none"> ■ Revenues > 5%
Thermal coal	<ul style="list-style-type: none"> ■ Revenues >10% ; ■ Launching of new projects
Animal testing	<ul style="list-style-type: none"> ■ Responsible policy if no legal requirement ■ Breaches to legislation
Genetic modification	<ul style="list-style-type: none"> ■ Revenues > 10%
Unconventional Oil & Gas	<ul style="list-style-type: none"> ■ Revenues > 10%

Conventional Oil & Gas	<ul style="list-style-type: none"> ■ Revenue based on natural gas or renewable energy < 40%
Electricity Generation*	<ul style="list-style-type: none"> ■ Carbon intensity > 429 (gCO2/kWh) <p style="text-align: center;">If carbon emission intensity data is not available:</p> <ul style="list-style-type: none"> ■ % power production based on coal >10% ; ■ % power production based on oil & gas > 30% ; ■ % power production based on nuclear sources > 30%.

* In 2020, the following new threshold will be applicable: Carbon intensity > 408 (gCO2/kWh)

For more details, please refer to Candriam's SRI Controversial Activities policy, which can be viewed on our website:

<https://www.candriam.fr/siteassets/medias/publications/brochure/corporate-brochures-and-reports/controversial-activity/controversial-activity-policy-en-2019.pdf>

Fossil Free Strategies

Due to the nature of the strategies, the Fossil Free strategies apply a unique and specific approach with the aim of constructing a zero fossil fuel portfolio by applying the following guidelines:

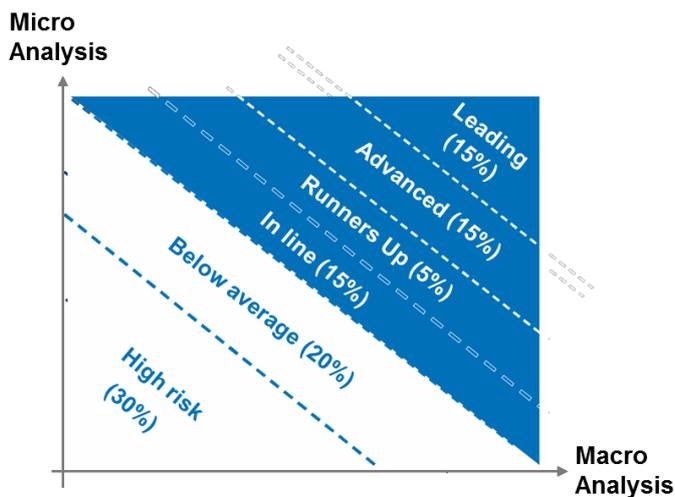
- Exclusion of companies with fossil energy reserves.
- Exclusion of companies seeking coal, oil and gas deposits gas or who extract, trade, refine or export these products.
- Exclusion of companies that invest in public services that produce fossil fuels to produce electricity.

The strategies also apply a stricter armament filter and excludes all companies involved in conventional armaments as well as for companies involved in Fur (revenues < 5%).

- [Definition of Eligible ESG Universe](#)

The ESG universe consists of all the companies that have successfully passed the phases of: Best-in-Class Analysis, Norms-Based Analysis and Controversial Activities exclusion screening.

Based on their combined Macro and Micro scores, companies in each sector are positioned on a chart, as shown below:



The companies with the best positioning through their Macro and Micro scores make up the Best-in-Class universe and can be included in SRI portfolios.

The Best-in-Class universe consists of the top 50% of the best-positioned companies.

With respect to the High Yield strategy, the Best-in-Class universe comprises the top 70% of the best-positioned companies.

After verification of their compliance with the principles of the United Nations Global Compact, just 4% of analysed companies are excluded.

The financial selection of issuers from within this SRI universe is based on financial analysis and the optimal management of risks and of the portfolio.

Any investment outside the SRI universe is prohibited.

SPECIFIC ANALYSIS CRITERIA FOR SPECIAL PURPOSE VEHICLES

We apply a specific analytical framework for Special Purpose Vehicles (SPV) due to the nature of their structure and purpose.

For potential investment in SPVs, the issuer must be eligible. We start by looking at the mission of the entity by identifying what lies behind the SPV. We subsequently identify the location of the vehicles, more specifically if its located in a tax havens or not.

Since we often do not have a clear overview on what lies behind an SPV, we often have a negative opinion regarding these vehicles and thus having them in an SRI portfolio.

We then apply our Best-in-class approach, which is supplemented by our norms-based and controversial activities checks.

SPECIFIC ANALYSIS CRITERIA FOR CORPORATE GREEN BONDS

We have created a specific framework for the analysis of Green Bonds. We believe that these instruments differ from traditional debt instruments and require a dedicated analytical framework to assess the sustainability of their projects and level of transparency. Our framework comprises analyses for both the issuers of green bonds as well as the instrument and project.

1. ICMA/CBI Certification Verification

The first step of the analysis consists of determining if the Green Bond has obtained certification. This may include certification from the Green Bond Principles of the International Capital Markets Association (ICMA) or Climate Bond Standard & Certification Scheme of the Climate Bond Initiative (CBI) certification.

We place a strong emphasis on certification as it testifies to the quality of the green bond project and the respect of high and widely recognized standards for green bonds.

Nevertheless, this is not the ultimate eligibility criteria for Green Bonds. In addition to ICMA/CBI certification, the issuer of the Green Bond must be determined eligible by our ESG proprietary model.

2. Issuer ESG Analysis

We apply our in-house proprietary ESG analysis to determine the eligibility of the **issuer** of the Green Bond. The framework is based on our traditional Best-In-Class analysis comprising the following steps: Macro Analysis, Micro Analysis, Norms-Based Analysis and a Controversial Activities check.

The ESG Universe consists of companies which are in the top 50% of our analysis, and which have successfully passed our Norms-Based analysis and our Armament and Controversial Activities reviews.

For information on the process, please refer above to our Best-In-Class framework.

3. Green Project Analysis

The Green Bond Principles have determined a list of categories which capture the most commonly used types of projects supported by or expected to be supported by the Green Bond market.

To this end, we subsequently identify which category of the Green Bond Principles are targeted by the projects financed by the Green Bond.

These categories include the following:

- Renewable energy
- Energy efficiency (including efficient buildings) & eco-efficient products
- Pollution prevention & control (incl. waste management, soil remediation, GHG control)
- Sustainable land use (including sustainable forestry and agriculture)
- Biodiversity (terrestrial & aquatic) conservation
- Clean transportation
- Clean water and/or drinking water

Furthermore, we analyse how the objectives of the green bond and its project fit into our Macro Analysis framework. In this analysis, we seek to identify the exposure of the green bond project and ensure a positive alignment to key sustainable themes, most notably Climate Change and Resource Depletion.

It is essential that the business model and environmental strategy of the company are aligned with the use of proceeds of green bonds. For instance, companies with business models that are considered unsustainable, such

oil & gas companies highly dependent on coal, will be negatively assessed. Green bonds from these issuers that do not demonstrate a sustainable strategy in-line with green use of proceeds will have a lower probability of being included in our ESG funds.

4. Green Bond Principles & Best Practices Verification

As part of the Green Bond Principles best practices, it is recommended that issuers **appoint an external review provider** to confirm the alignment of the bond and/or bond program with the four main components of the Principles. These external providers include independent consultants and/or institutions with expertise in environmental sustainability or issuances of Green Bonds.

In our model, we have made this best practice a **hard criteria for eligibility**. We verify if the issuer has undergone this recommendation.

We subsequently analyse the following aspects pertaining to the green bond:

- **Nature of financed projects:** new projects, refinancing of existing projects
- **Proceeds Management:** we assess the level of transparency regarding the management of proceeds to ensure that proceeds are managed in an appropriate manner. This includes the tracking of proceeds, operations and the eligible types of instruments to balance unallocated proceeds.
- **Audit of Proceeds:** We place a strong emphasis on the audit of the proceeds to verify the internal tracking and allocation. In addition, we pay close attention to any certification received. An issuer can have its Green Bond or associated framework or use of proceeds certified against a recognized external green standard or label.
- **Reporting:** We assess the level of transparency in terms of its reporting. We verify if and how issuers make publicly and readily available their reviews and audits of the Green Bond. We verify that annual reports include information regarding the green projects including their environmental or social impact.

As the final step of the green bond eligibility verification, we verify, via our Micro analysis, that the issuer has strong stakeholder management practices in the domains which are most relevant to the **green bond and project**. If an issuer has weak practices in these areas, we conduct additional analysis to determine the final eligibility of the green bond.

5. Final Eligibility Decision

In order to be eligible, the issuer and the green bond must successfully pass each step of the process. Eligible green bond issuers

ANALYSIS CRITERIA FOR COUNTRIES, I.E. PUBLIC BOND ISSUERS SUCH AS PUBLIC ORGANISATIONS AND OTHERS.

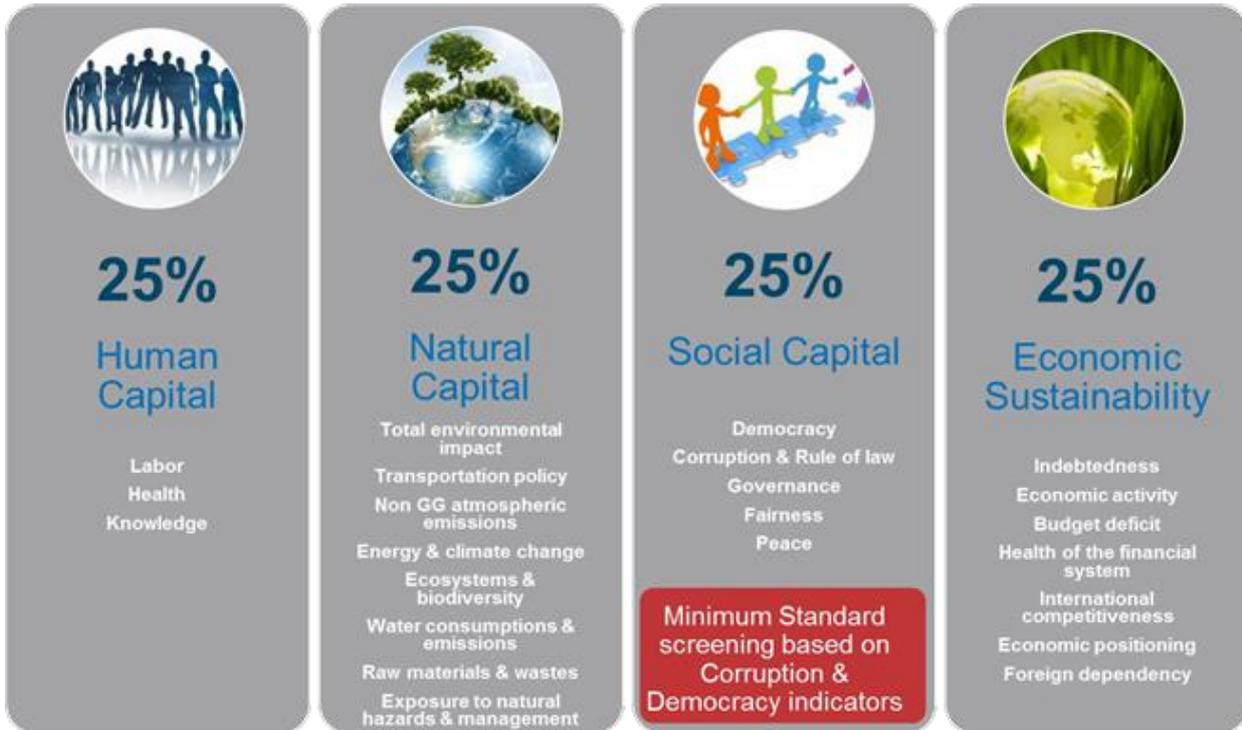
- **Best-in-Universe Analysis**

CANDRIAM's country ESG screening aims at analysing countries' ability to manage their **human, natural and social assets**, as well as their **economic activity**, in such a way as to ensure their present welfare without compromising the ability of future generations to ensure their own welfare, including economic prosperity.

CANDRIAM's country ESG analysis assesses whether each country is following a development path which is sustainable in the mid-term to the long run. In this way, it is a "capital-based approach", as, for each

country, it reviews a comprehensive list of indicators with the purpose of assessing the human, natural, social and economic “capital” of a country at the present moment, as well as over time. Hence CANDRIAM’s country ESG analysis consists of both a present and dynamic assessment of countries’ respective capital.

CANDRIAM’s country ESG analysis compares countries against each other, indicator by indicator, with the aim of identifying countries’ strengths and weaknesses relative to their peers. For each country, its performance over each indicator is aggregated into a single score, which synthesizes the country’s level of sustainability with regard to its peers. CANDRIAM’s ESG analysis of countries is therefore a relative scoring of the degree of sustainability of a country’s development path, in comparison with other countries.



1. HUMAN CAPITAL

The **Human Capital** domain aims at identifying countries that have the best human productivity potential, through assessing how healthy and knowledgeable its population is, as well as the extent to which its population is provided employment opportunities (e.g., the participation rate).

For instance, indicators used within this domain are: the proportion of a country’s labour force holding a tertiary education degree, the employment-to-population (15-64 years old) ratio and the proportion of death caused by communicable diseases.

2. NATURAL CAPITAL

Under the **Natural Capital** domain, we analyse how well a country is managing its own natural resources and a country’s contribution (positive or negative) to global efforts to mitigate major environmental issues such as climate change, the destruction of ecosystems and the loss of biodiversity, the unsustainable use of water resources, the depletion of raw materials and the intensive generation of waste.

Examples of indicators used within this domain are: carbon dioxide emissions per capita, the share of renewable energy in total energy consumption, the proportion of threatened animal species and total freshwater withdrawal in proportion of a country’s internal resources.

3. SOCIAL CAPITAL

Within the **Social Capital domain**, CANDRIAM's country ESG analysis evaluates how well a country's civil society and institutions of a country are functioning. To do so, the analysis assesses, inter alia, how democratic a country's political system is, how prone to corruption it is, the extent to which the rule of law is enforced, whether its institutions provide an effective and business-friendly environment, whether the wealth is shared on a reasonably equitable basis, and whether the country's population enjoys a safe living environment.

A few notable indicators used within this domain are: the World Press Freedom Index from Reporters Without Borders, the number of crimes per hundred thousand inhabitants, the proportion of firms exposed to bribe payment requests over the past year, the World Bank CPIA quality of public administration rating, and the Ease of Doing Business Index.

In this domain, we place a strong emphasis on specific social issues that are considered controversial on a global scale, including the use of the death penalty. In determining the sustainability of a country, we verify and monitor if the country is a signatory of the Second Optional Protocol to the International Covenant on Civil and Political Rights, which aims to abolish the death penalty. In the support of this Protocol, countries that are not signatories will be negatively scored in the Basic Political/Civil Rights Theme of the this pillar.

4. ECONOMIC SUSTAINABILITY

Economic Sustainability domain makes a general assessment of a country's economic fundamentals and detects potential threats to each country's economic base. In doing so, it assesses the permanence of the financing that drives all the sustainability policies found under the Human Capital, Natural Capital and Social Capital domains.

Past cases have shown that a country with poor economic fundamentals cannot maintain a high level of human capital, natural capital and social capital in the long term. Over the piece, the ability of a country to implement ambitious sustainability policies requires a sound economy.

Examples of the indicators used within this domain are: budget deficit as a proportion of the GDP, the central government debt as a proportion of the GDP and the debt service payments (principal + interest) as a proportion of export earnings., etc.

Furthermore, Candriam's framework is specifically structured towards identifying violations of the UNGC principles, and towards excluding countries that violate the 10 principles from the investment universe. For further information, please refer to the "ESG Sovereign Framework & UN Global Compact Principles Considerations" appendix at the end of this document.

- **Definition of Eligible ESG Universe**

Candriam uses a safeguarding mechanism for countries that perform insufficiently with respect to a limited number of topics that are considered to be particularly sensitive: democracy and corruption.

Democracy and corruption were selected as particularly sensitive topics on the grounds that it appeared unacceptable to finance dictatorial governments and/or governments in which public finances are being extensively embezzled away from the public policies they were intended to fund.

For countries that perform poorly with regard to these two topics, a specific penalty is applied directly on their Social Capital score. Since the Social Capital Score is one of the four domains used to calculate a country's final score (accounting for 25% of the final score), this penalty indirectly degrades the final scores of these countries. In conclusion, this specific penalty effectively addresses the potential funds' exposure to both actual dictatorships as well as highly corrupted countries that are plagued by public money embezzlement issues.

Furthermore, countries are excluded from the ESG universe if they fail to comply with Financial Action Task Force (FATF/GAFI) recommendations or when they are considered a highly oppressive regime or as supportive of highly oppressive regimes.

FATF recommendations (www.fatf-gafi.org) are recognized as the international standard for combating money laundering and the financing of terrorism and proliferation of weapons of mass destruction.

The screening applied to identify countries that are considered a highly oppressive regime or as supportive of highly oppressive regimes is based on the World Bank Voice & Accountability Index and on the Freedom House Freedom report in the World Index.

Only issuers having successfully passed the country screening procedure are eligible for inclusion in the final country universe. Based on our SRI analysis of countries, each country is allocated a score between 0 and 100. Developed countries with an SRI score lower than 50 are excluded from the SRI country universe, as are Emerging countries with a score lower than 35.

ANALYSIS CRITERIA FOR SUPRANATIONAL ORGANISATIONS ISSUING BONDS

In order to be eligible for the SRI universe, supranational organisations must have a mission that complies with the principles of sustainable development and not have committed any major systematic breaches of the principles of the United Nations Global Compact.

A "red" colour code in any of the four major categories of the Global Compact results in exclusion from the SRI universe.

For further information, please refer to the Norms-based section above in this question.

3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

Each sector and country is periodically analysed by assessing the evolution of sustainability trends, as well as the relevance and materiality of each model or framework used.

The goal is to ensure that the Best-In-Class models used by the analysts optimally reflect the sustainable development risks and opportunities affecting the sector in question. As companies are continuously being monitored, they are subject to frequent updates within the framework of the Best-In-Class Sector Model.

If there is a major event that may affect the rating assigned to a company (i.e. merger and acquisition, scandal, sustainability controversy etc.) or country (i.e. war, natural disaster, coup d'Etat, etc.), the ESG analyst will launch an alert on the issuer.

There are several types of alerts that can be considered:

- SRI Monitoring Alert (for information only): This alerts explains how the SRI team assessed the incident or controversy, even if there is no immediate change in the decision about the company's eligibility.
- SRI Alert: This alert means that the portfolio manager will no longer be able to add to his position in this issuer. The output of an SRI Alert can be:
 - An immediate change in the final decision on the company's eligibility criteria (from "eligible" for an SRI portfolio to "non-eligible"). In this case the portfolio manager must sell the position within a 3-months period.

- No immediate change in the final decision on the company's eligibility, but there is a high probability that there will be a change in the near future following the result of the analysis. No immediate selling is required. Within the following three months of the alert, the company will be reviewed according to the new information. A longer period for the revision is allowed when justified by objective reasons, such as, on-going dialogue with the company or awaiting the result of a lawsuit.

4. Investment Process

4.1. How are the results of the ESG research integrated into portfolio construction?

Candriam's SRI investment process is a two-step process that first of all calls for the definition of the eligible investment universe, followed by a financial selection from within this eligible universe.

The financial selection of issuers from within this SRI universe is based on financial analysis and the optimal management of risks and opportunities of the portfolio.

Any investment outside the SRI universe is prohibited.

In addition, ESG considerations are taken into account within the individual investment processes.

The selection of SRI issuers is confirmed by the SRI analysis team on a monthly basis, and on a one-off basis in exceptional circumstances. When there is a change in the SRI universe and an issuer is excluded, the approach consists in excluding this issuer from the SRI portfolios within a period of 3 months, depending on market conditions (very rare exceptions may be granted in order to accommodate a potential liquidity problem).

The Risk Management department ensures that all securities in the portfolios comply with the SRI universe.

4.2. How are criteria specific to climate change integrated into portfolio construction?

Portfolios are constructed using the eligible ESG Universe resulting from the research and analysis of the ESG Team. Investments teams may not invest in companies outside of the eligible universe.

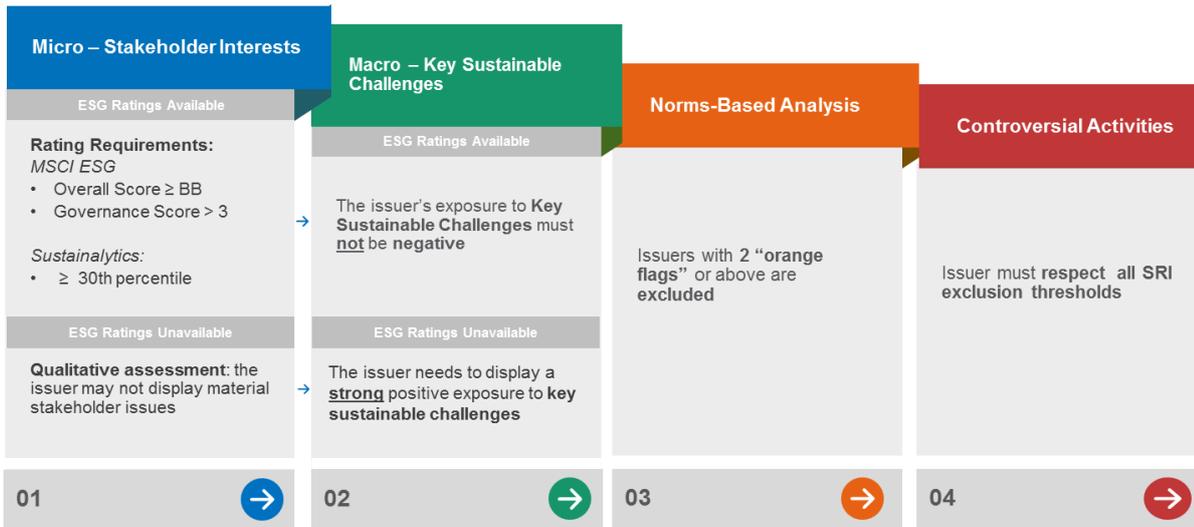
4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?

All issuers that are present in the portfolio are subject to an ESG assessment. However, due to specific events not all issuers may be subject to full Best-In-Class analysis to be eligible in the ESG universe.

Specific events (e.g. index additions, primary market issuances, etc.) may have an impact on the investment universe in between sector reviews. In order to address changes in this universe, the analyst applies a 'high-level' SRI screening methodology in anticipation of the next sector review. We refer to this screening as the SRI Express, it is applied in the same spirit of our BIC analysis with the only difference being that the result is a qualitative judgment for the inclusion or exclusion and is not a quantitative score ranging from 0 to 100. Each issuers will be assessed from a norms-based and controversial activities perspective. Additionally, the screening will exclude issuers that are exposed to the most negative business models in Candriam's BIC macro approach, and that are considered laggards in their practices towards stakeholders (micro analysis). Companies analysed through this methodology will be scored during the next sector review.

Express eligible issuer holdings must not exceed 10% of total portfolio weight.

Please find below an overview of the screening:



4.4. Has the ESG evaluation or investment process changed in the last 12 months?

There have not been any material changes to our overall ESG analytical frameworks over the past 12 months. Upon the review and analysis of sectors, the analysts may enhance sector models to better align them with the evolution of key sustainable challenges in each sector. However, we have expanded the exclusions for controversial activities to include unconventional gas and oil (revenues > 10%) as well as conventional oil and gas (minimum revenue in natural gas or renewables sources >40%).

4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

Yes, the funds covered by this Code seek to invest in entities pursuing strong social goals. Although the strategies do not apply an “impact” approach, they strive to exceed benchmark averages on the verifiable impact indicators and take into account a company’s interaction with society.

For example, in the stakeholder analysis of “Society” in the Micro model assesses the impacts of organisations in the communities in which they operate and how they interact with local and global institutions including NGOs and governments. The analysis comprises two main pillars - Community Relations and Public Authority Relations - which take into consideration several themes including: socio-economic relationships, site safety, access to products/services, lobbying and corruption. Together, these two pillars assess the overall impact of a company’s operations on its local community and society at large.

In our framework, companies which demonstrate the pursuit of strong social goals benefit from a higher ESG score. Furthermore, in sectors in which societal interactions are key, we place a stronger emphasis on this aspect by overweighting these factors in the final ESG score.

4.6. Does (do) the fund(s) engage in securities lending activities?

The SRI funds do not conduct securities lending/borrowing.

4.7. Does (do) the fund(s) use derivative instruments?

Depending on the investable asset classes and within the limits defined by the approved prospectus, SRI portfolios may use derivatives, as defined below. The general principle on the use of derivatives is that short positions via derivatives can only be used to cover long positions. No net short positions are authorized, except in exceptional cases where adequate hedging cannot be achieved due to lack of instrument coverage.

For all derivative transactions, the fund is required to use as counterparty, only those financial institutions that comply with the principles of the United Nations Global Compact, as described in Section 3.3 of this Code at the time of the transaction.

- Interest rate futures: management of the funds in question involves the regular use of interest-rate futures based on government bonds belonging to the SRI universe, in order to adjust the portfolio's duration (upward or downward) across the different segments of the yield curve. These transactions are limited by the legal rules applicable to funds subject to the European Directive, i.e., to 100% of the fund's assets (including other derivatives). As the underlying is included in the SRI universe, there is no impact on the fund's ESG quality.
- Interest-rate swaps: management of the funds in question may involve the use of interest-rate swaps in order to trade a fixed rate for a variable rate, if the counterparty belongs to the SRI universe. These transactions are limited by the legal rules applicable to funds subject to the European Directive, i.e., to 100% of the fund's assets (including other derivatives). As the underlying is included in the SRI universe, there is no impact on the fund's ESG quality.
- Equity swaps: these transactions are permitted, provided that the index or basket of shares meets the criteria of the SRI universe.
- Credit derivative indices: management of the funds in question may involve the temporary use of credit-derivative indices, in cases where the funds must quickly adjust their exposure to the markets. These positions are temporary (max one week) and are limited to 10% of the fund's assets.
- Credit Default Swaps (CDS): the funds in question may use CDS on an SRI issuer in the portfolio if the counterparty to the transaction is a financial institution that also belongs to the SRI universe. As both the issuer subject to the CDS and the counterparty to the transaction belong to the SRI universe, these transactions have no impact on the fund's ESG quality.
- Equity index futures: management of the funds in question may involve the temporary use of equity index futures, in cases where the funds must quickly adjust the portfolio's exposure to the equity markets. These positions are temporary (max one week) and are limited to 10% of the fund's assets.
- Forwards: forwards are exclusively used to quickly adjust the portfolio's exposure to foreign exchange risk in the event of strong market fluctuations or a major change in the portfolio's composition. These transactions, which have no impact on the fund's ESG quality, have to be done with a credit institution that is part of the SRI universe.
- Listed options / OTCs on individual equities or on bond issuers: these options are valid provided the issuers are in the SRI universe.

Please note that investments in commodities as well as forward contracts on commodities are forbidden.

4.8. Does (do) the fund(s) invest in mutual funds?

The strategies covered by this Transparency Code do not seek to actively invest in mutual funds. Nevertheless, certain funds may invest in liquidity solutions via money market funds. In accordance with the Internal Risk Management Policy, they may only invest in Candriam SRI UCITS & AIF which are subject to the SRI policy.

5. ESG Controls

5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?

At Candriam, several departments are in charge of internal control: risk management, internal audit and compliance.

Each department is independent of the Fund Management Department and is placed directly under the authority of Candriam's Group Strategic Committee.

The risk management department ensures that the securities making up the portfolios comply with the SRI universe.

One of the tools used by this department is the constraints server, a tool that combines all the constraints and limits required to manage the investment funds. It contains regulatory and contractual constraints as well as internal limits and constraints used to prevent operational errors. Constraints are applied, for example, to:

- the SRI investment universe;
- the list of authorised investments;
- the potential ratios (liquidity, dispersion) defined;
- the main regulatory constraints applicable to the fund;
- the "list of credit warnings" and "list of equity warnings".

Once the constraints have been configured in the constraints server, any order entered by the portfolio manager is immediately checked against them before the order is sent to the markets (*ex-ante control*). The portfolio manager is alerted in the event of a breach of constraint.

The Internal Audit Department carries out inspections and subsequently advises as necessary to ensure the performance and effective implementation of the internal control system in force. The inspection missions represent the lion's share of the audit department's work and aim to provide the Executive Committee with an objective and independent assessment of a particular domain (function, process, system, ...). In this context, the application of the SRI methodology and its application in the SRI portfolio management process are regularly monitored by internal audit.

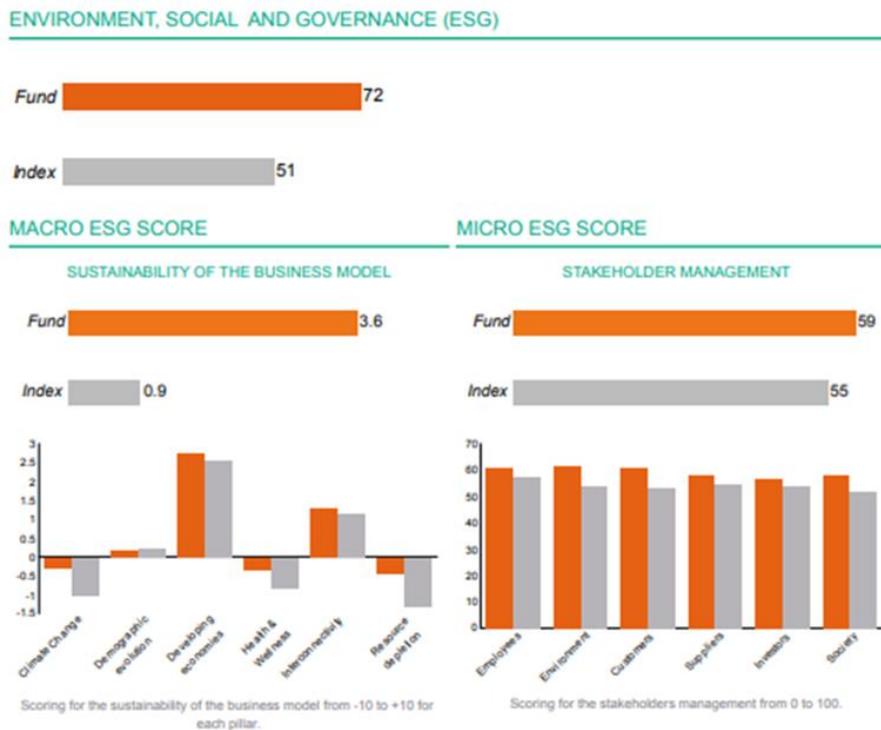
6. Impact measures and ESG reporting

6.1. How is the ESG quality of the fund(s) assessed?

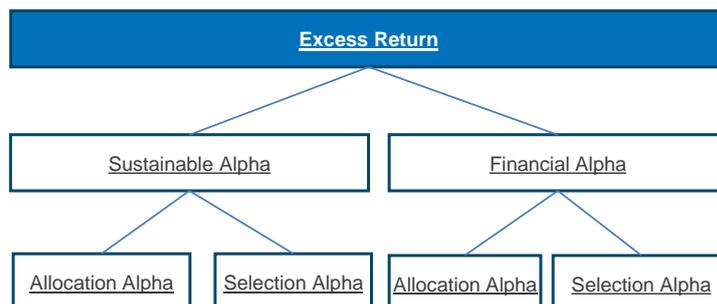
The ESG quality of the majority of our Best-In-Class funds is assessed through the attribution of a final ESG Score to the portfolio versus the index as well as the scoring of the portfolio versus the index in terms of the 12 ESG factors used to assess the Sustainability of the Business Model and Stakeholder Management.

More specifically, we score the portfolio versus the index on the following key sustainable challenges: climate change, resource depletion, health & wellness, demographic evolution, developing economies, and interconnectivity. In terms of Stakeholder factors, we score the portfolio versus the benchmark on the following factors: Investors & Governance, Employees, Customers, Suppliers, Society, and the Environment.

Candriam has developed an analytical scoring framework to identify Best-in-Class companies. Average ESG scores is calculated on the underlying securities that are rated. It is the sum of individual issuer score weighted by their weight in the fund/index. The fund aims to achieve overall ESG Macro and Micro scores exceeding those of the benchmark. Global ESG scoring goes from 0 to 100.



For each of our SRI Equity Funds, we also report the proportion of performance attributed to ESG factors, and to financial investment factors. Each source of alpha is subsequently broken down according to excess return derived from Alpha allocation and Alpha selection as follows:



6.2. What ESG indicators are used by the fund(s)?

A founding signatory of the Principles of Responsible Investing and a supporter of the Montreal Carbon Pledge, Candriam has committed to measure and publicly disclose the carbon footprint of its sustainable investment funds. Carbon footprint data for Funds is updated on a quarterly basis.

As of January 2018, Candriam broadened the scope of the impact indicators, as calculated on a quarterly basis and published in the portfolio reports for specific SRI funds. A total of ten impact indicators were selected to represent the positive impact of Candriam's investment choices on the Environment, Society and Corporate Governance (ESG).

These selected indicators were chosen based on their objectivity of the ESG criteria and satisfactory coverage rate of the companies in our portfolios. Trucost data is the source for the environmental indicators, and MSCI ESG data is used for all other impact indicators.

The ten ESG impact indicators can be broken down into the following four categories:

- Environmental Indicators
- Social Indicators
- Human Right Indicators
- Governance Indicators

It is vital for investors to become increasingly aware of the impact their investments choices have on the environment. This awareness helps limit negative impacts on the environment and global warming. Some countries have shown a strong determination to hold asset managers accountable by including an analysis of risks and opportunities associated with climate change in their investment choices. France clearly stands out in this regard with Article 173 of the Energy Transition Act.

To transparently present the impact of investment choices on the environment, Candriam selected the following indicators:

1. ENVIRONMENTAL INDICATORS

Carbon Footprint



The carbon footprint measures the quantity of greenhouse gas emissions in CO₂ equivalent (CO₂ eq.) generated by a company or organisation's activities. The carbon footprint can also be calculated for the investments making up a portfolio. A portfolio's carbon footprint answers the question: what level of CO₂ emissions are "held" and "financed" by my portfolio? This indicator is used to compare a portfolio's carbon footprint to its benchmark index.

The Greenhouse Gas Protocol distinguishes between three scopes of emissions, which are used to assess a company's carbon footprint:

- **Scope 1:** Direct emissions generated by sources owned or controlled by the company. Example: for a company in the utilities-electricity generation sector, the emissions generated by electricity generation are Scope 1 emissions.
- **Scope 2:** Indirect emissions from electrical power used by the company's operations. Example: for a company in the banking sector, the emissions associated with electricity purchased through the power network to run its computers and light its offices fall into this category.
- **Scope 3:** Other indirect emissions generated upstream in the goods and services production chain

(suppliers) and when goods and services are used downstream (customers). Example: for a company in the oil extraction sector, downstream emissions are emissions associated with the combustion of extracted hydrocarbons.

We made the choice to only include information on Scope 1 and Scope 2 emissions due to the relatively limited information available on Scope 3 emissions³.

The calculation methodology allocates to the portfolio, the emissions generated by a given company relative to the investment ratio, i.e. the percentage of the company owned via the portfolio. For example, if I own 0.1% of a company through my portfolio, this means I also own 0.1% of its CO2 emissions.

We chose the following methodology for our portfolio reports:

$$\text{Portfolio Carbon Footprint} = \frac{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{Scope 1 and 2 emissions}) \}}{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{Revenues}) * \text{Exchange rate at the end of the reporting year} \}}$$

(tons CO2eq / mjo USD revenues)

Enterprise Value * = *Market Capitalisation (priority shares included) + Net Financial Debt + Minority interests - Cash*

Value of holding = *Weight of the company in the portfolio * Total value of the portfolio*

Water Footprint



Just as the carbon footprint measures emissions in terms of CO2 eq, the water footprint aims to measure water consumption by portfolio companies. Thus, by combining the different companies' water footprint, we determine the portfolio's water footprint.

Water is becoming an increasingly scarce resource and companies have a responsibility to maximise their efforts to reduce their consumption and use as much recycled water as possible in their own production process.

Please find below the methodology chosen for our portfolios:

$$\text{Water Carbon Footprint} = \frac{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{water consumption in m3}) \}}{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{Revenues}) * \text{Exchange rate at the end of the reporting year} \}}$$

Market Capitalisation (priority shares included) + Net Financial Debt + Minority interests - Cash

*Weight of the company in the portfolio * Total value of the portfolio*

³ Due to the absence of Scope 3, this calculation does not represent the total level of CO2 emissions for the fund nor the benchmark.

2 Degrees Analysis



This analysis compares the energy mix financed by the portfolio to the energy mix needed to limit global warming to 2 degrees (relative to the pre-industrial era). This analysis is exclusively limited to electricity generation. The 2 degree energy mix is in line with a probability of at least 50% of limiting global warming to 2 degrees.

In this analysis, electricity generation held by the portfolio is calculated using different sources to determine the portfolio's energy mix.

- Coal-based electricity generation = $\sum \{ (\text{Value of holding/Enterprise value}) \times (\text{MWh coal-based electricity}) \}$
- Gas-based electricity generation = $\sum \{ (\text{Value of holding/Enterprise value}) \times (\text{MWh gas-based electricity}) \}$
- .. etc.

This shows us what percentage of electricity generated can be attributed to different sources (i.e. renewable, nuclear, natural gas, coal etc.), and where we stand relative to the AIE's 2030 and 2050 2 degree scenario, by comparing the portfolio and the benchmark index.

2. SOCIAL INDICATORS

Occupational Health & Safety Performances



Safety in the workplace is a basic right. Certain sectors and activities are more prone to accidents, jeopardising the health and lives of their workers. Most companies publish performance indicators such as accident and victim rates. In an effort to reduce workplace accidents and improve working conditions, companies can set quantitative performance improvement targets. This makes the company accountable not only to its workers, but also to the community in which it operates and to its investors.

This indicator answers the question: has the company set quantitative targets aimed at improving its occupational health and safety performances?

This indicator is calculated differently from the environmental impact indicators presented above. It represents the weight of companies in the portfolio having set occupational health and safety performance improvement targets.

Collective Bargaining Agreement

This indicator shows whether or not the company has signed a collective bargaining agreement, at least for some of its workers. A collective bargaining agreement is a written agreement negotiated between trade unions and management. Originally seen as a way to improve working conditions for employees, it also plays an important role in supplementing and adapting the law. For example, collective bargaining agreements establish minimum wages, bonuses, paid leave, etc.



This impact indicator answers the question: has the company adopted a collective bargaining agreement? The calculation represents the weight of companies in the portfolio having signed/adopted a collective bargaining agreement.

3. HUMAN RIGHT INDICATORS

Women on Board of Directors



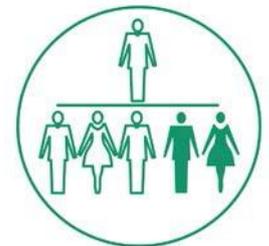
Respecting diversity is increasingly important in the business world and in society at large. A high percentage of women on the Board of Directors is a sign of a corporate culture that does not discriminate against women advancing in their career. A diversified Board with female directors helps expand perspectives and viewpoints among top management.

Femmes Women on the Board = \sum weight of company in portfolio x % of company's Board represented by women

4. GOVERNANCE INDICATORS

Independence of the Board of Directors

An independent Board of Directors is critical in aligning the interests of the company's top management with those of its other investors.



The definition of an 'independent director' is given by our ESG data provider, SCI ESG. According to this definition, 'non-independent directors' are directors who are part of the Management team and meet a series of clearly defined criteria:

- They are or have been a paid executive manager or employee of the company
- They own or run an entity that holds majority control ($\geq 30\%$) over the company in question
- They founded the company
- They have close personal or family ties with an executive manager of the company
- They are employees of a company held or managed by an executive manager of the company in which they serve as directors
- They provide services to the company or to an executive manager of the company for an amount exceeding \$120,000 per year or an amount exceeding 50% of their compensation granted as directors.

This indicator is calculated using a weighted average, which multiplies the weight of the company in the portfolio and the % of the company's Board represented by independent members.

Independence of the Board = \sum weight of company in portfolio x % of company's Board represented by independent members

Significant Votes Against Pay Practices



This indicator helps answers the question: does the company have controversial pay practices? This impact indicator measures the votes exceeding 10% against the company's pay practices, expressed as portfolio weight.

Independence of the Audit Board

This indicator assesses the complete independence of the Audit Board.

The calculation represents the weight of companies in the portfolio having an Audit Committee considered as 'fully independent'.



Respect of the 10 principles of the Global Compact



The United Nations Global Compact is a voluntary framework of commitments encouraging companies and non-profits to observe ten universally accepted principles in a bid to respect human rights, labour standards, the environment and anti-corruption initiatives.

This assessment is completely subjective and, for this reason, this indicator is different from the other impact indicators, which are completely objective. Information on this impact indicator is supplied by MSCI ESG. Observation of the 10 principles of the Global Compact is examined by Candriam's in-house ESG analysts. Given the subjective nature of this analysis, there may be a

difference of opinion between the analysis performed by Candriam's SRI team and that of MSCI ESG for ESG selection.

This indicator answers the question: according to the data provider, what percentage of the portfolio is fully in line with the principles of the Global Compact? Companies with a "watch list" rating are not included in this "Fully in line" category.

6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?

The documents and information on our SRI funds address the ESG quality of the portfolio via:

- the fund's investment strategy;
- the selection of the biggest securities in the portfolio, as described in the fund report.

Details of the securities in the portfolio are also available on our corporate website, in dedicated product sheets, in the "Search for a Fund" section;

All core SRI funds are described on the corporate website via the fund-search engine:

<https://www.candriam.com/en/professional/funds-search/#/sri=true>

The SRI Engagement Report can be viewed at the following link:

https://www.candriam.be/496382/siteassets/medias/publications/brochure/corporate-brochures-and-reports/engagement-report/engagement-activities_annual-report2018.pdf

The Proxy Voting Annual Review can be viewed at the following link:

<https://www.candriam.be/49639d/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxyvotingannualreview2018.pdf>

Details of votes cast can be viewed on our website at the following link:

<https://www.candriam.be/en/professional/market-insights/proxy-voting-candriams-votes-2018/>

The Sustainable Development Report can be viewed at the following link:

<https://www.candriam.be/4ac218/siteassets/medias/publications/brochure/corporate-brochures-and-reports/csr-report/csr2018.pdf>

For any request on research available to investors/savers or the breakdown of the securities in the portfolios, please contact Investor.support@candriam.com.

6.4. Does the fund management company publish the results of its voting and engagement policies?

Yes, the company publishes the results of its voting and engagement policies.

Please refer to question 6.3. for the links to our publications.

7. APPENDIX: ESG Sovereign Framework & UN Global Compact Principles Considerations

Candriam's framework is specifically structured towards identifying violations of the UNGC principles, and towards excluding countries that violate the 10 principles from the investment universe.

For instance, countries that are on Candriam's Oppressive Regimes list are automatically excluded from financing. Countries on the list are those that are in systemic breach of internationally recognised human rights, addressing **Principles 1 and 2**.

Countries are evaluated according to their scores on four equally-weighted domains, according to the four capitals approach - Human, Natural, and Social Capital, as well as Economic Sustainability, thus addressing the UNGC principles. Each of these domains contain subdomains as follows:

- **Human Capital (Addressing Principles 3, 4, and 5)** - Labour, Health, and Knowledge
- **Natural Capital (Addressing Principles 7, 8, and 9)** – Total Environmental Impact, Transportation Policy, Non-GHG emissions, Energy & Climate Change, Ecosystems & Biodiversity, Water consumption & Emissions, Raw Materials & Wastes, and Exposure to natural hazards & management of disasters
- **Social Capital (Addressing Principles 1, 2, 6, and 10)** - Democracy, Corruption & The Rule of Law, Governance, Fairness, and Peace
- **Economic Sustainability** – Indebtedness, Economic activity, Budget Deficit, Health of the Financial System, International Competitiveness & Balance of Payments, Economic Positioning, and Foreign Dependency

In addition to this, Candriam applies several exclusion filters, as follows:

- Freedom in the World Index, World Bank Control of Corruption, and World Bank Voice and Accountability – a country is required to achieve a minimum threshold for each of these metrics. Failing one or more of these thresholds results in the Social Capital score of a country being set at Zero, which severely impairs the overall score (up to 25% of the overall score), and results in a country being excluded from the investment universe in the vast majority of cases.
- Financial Action Task Force – any country on the “call to action” list automatically receives an overall score of Zero, and is thus not eligible for inclusion in the investment universe.
- Oppressive regimes list – any country that appears on Candriam’s Oppressive Regimes list is automatically excluded from investment eligibility

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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