



**Sustainability- Related Disclosures for Article 9  
products pursuant to article 10 of Regulation  
2019/2088 on Sustainability- Related Disclosure in  
the Financial Services Sector (SFDR)**

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# 1. Summary

## Scope of application of this disclosure statement

The information presented in this disclosure statement applies to the European Union's Sustainable Finance Disclosure Regulation (SFDR) Article 9 products of Candriam in general (here below, "Candriam's Article 9 products").

Candriam's Article 9 products share common characteristics presented in this document, however, may have different investment strategies and environmental or social focuses. That is, these products may have specific characteristics, methodologies, and indicators that vary.

For a detailed view of these product-specific elements, please refer to the dedicated webpages that are accessible via Candriam's website <https://www.candriam.com>.

## Implementation of the principle of Do No Significant Harm (DNSH)

The investments of Candriam's Article 9 products adhere to the DNSH principle, ensuring they do not harm any of the sustainable investment objectives pursued by these products. The principle of DNSH under the SFDR is linked to the consideration of "Principal Adverse Impacts" (PAIs) of investment decisions on sustainability factors, as well as the alignment of investments by the products with the "minimum safeguards" set out in Regulation (EU) 2020/852 of the European Parliament and of the Council<sup>2</sup>.

PAIs are embedded in Candriam's sustainable investment approach across Candriam's corporate and sovereign ESG frameworks. PAIs are considered at multiple steps of our ESG investment process and through Candriam's ESG analysis, as well as our negative screening (Norms-based Analysis and Controversial Activities Analysis), along with Candriam's engagement and voting activities. Candriam's framework monitors PAIs, identifying high-PAI outliers for qualitative DNSH assessment, ensuring a thorough evaluation of related risks and opportunities. For a more detailed explanation, please refer to [Candriam's implementation of the DNSH principle in Candriam's ESG Analysis, under the SFDR](#).

## Sustainable investment objective

Candriam's Article 9 products covered by this disclosure aim to make long-term positive contributions to key sustainability objectives, which can be environmental or social. These objectives include, among others, addressing climate change, resource efficiency, biodiversity preservation, and inequality reduction.

It is essential to assess the objectives of Candriam's range of Article 9 products, which requires a thorough understanding of how issuers contribute to sustainability. For corporates, Candriam evaluates this through an assessment applied via two interconnected processes:

- **Overall ESG assessment:** an evaluation of the overall sustainability of issuers, which results in an overall ESG Rating for each issuer. Companies must have an overall ESG Rating that is better than or equal to ESG 5 (or better than or equal to ESG 6 for emerging markets and high-yield strategies). This assessment combines an evaluation of how a company's activities contribute to key sustainability challenges (Business Activities Analysis) and an assessment of how it treats stakeholders and manages ESG-related risks (Stakeholders Analysis).
- **Specific E/S contribution assessment:** Candriam uses specific elements of its ESG analytical framework in a process for assessing contributions to environmental and/or social objectives, which results in an Environmental Contribution Score and/or a Social Contribution Score.

## Investment strategy employed to attain the sustainable investment objective

Candriam's corporate ESG analytical framework sets clear requirements for identifying sustainable investments, structured around two key components : (1) Proprietary ESG Analysis, which comprises an overall ESG assessment and a specific E/S contribution assessment, and (2) in-depth negative screening, covering Controversial Activities and a Norms-based assessment of issuers' controversies. To qualify as a Sustainable Investment for investment strategies, issuers must meet all criteria as outlined in [Candriam's Sustainable Investment Definition](#), including ESG Rating, the DNSH principle

<sup>2</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment

(Norms-based and Controversial Activities analysis), Contribution to an Environmental and/or Social Objective, and Good Governance.

Candriam ensures Good Governance through five key pillars: strategic direction, audit committee & auditor independence, transparency on executive remuneration, share capital and financial conduct and transparency. Compliance with Good Governance practices is assessed through Candriam's Stakeholders Analysis, as well as through Candriam's Norms-based Analysis.

A sovereign security is considered a sustainable investment if the issuing country is not on Candriam's Oppressive Regime List, the Financial Action Task Force (FATF) 'Call for Action' list, or identified as 'not free' by Freedom House. Additionally, the issuing country must meet Candriam's ESG eligibility criteria across Natural Capital, Human Capital, Social Capital, and Economic Capital. Countries are evaluated on potential damage to Natural Capital while creating value in Human, Social and Economic Capitals, which is the concept of "Environmental Efficiency".

A supranational issuer can be deemed sustainable if its mission contributes positively to sustainable development and has not committed major breaches of United Nations Global Compact (UNGC) Principles, according to our Norms-based Analysis.

### **Proportion of sustainable investments**

At least 80% of the total net assets of Candriam Article 9 products are invested in sustainable investments. The remaining 20% may be allocated to other investments, including cash, derivatives, and issuers that were considered sustainable at the time of investment but no longer fully comply with Candriam's sustainable investment criteria, based on its proprietary ESG analysis framework. These investments are to be sold in accordance with the divestment principles outlined in Candriam's ESG Investment Policy.

### **Monitoring and due diligence**

It is crucial to continuously monitor sustainable investments, which is ensured by an ESG Investment Policy, Committees and independent compliance checks. In the event of a breach, it is reviewed by the risk management department and the Sustainable Risk Committee that decide on suitable action. The due diligence on the underlying assets of the financial product is carried out by Portfolio Management and Risk Management Departments. It is supported by a tool that contains regulatory and contractual constraints and aims to prevent errors.

### **Sustainability indicators, data sources and correction of data-related issues**

To achieve the sustainable investment objective of Candriam Article 9 products, Candriam implements climate and social related Key Performance Indicators (KPIs) in directly managed investment strategies, as outlined in the prospectus, which may vary by product.

In accordance with their prospectus, some of these products aim to achieve a carbon footprint at least 30% lower than their respective benchmark. Depending on the product's investment strategy other indicators may be defined (i.e. climate change, quality of living-related sustainability indicators, temperature objective or positive contribution to the UN Sustainable Development Goals).

An end-to-end data processing pipeline has been implemented, where Candriam's ESG Investments and Research Department collects ESG data, continuously checked at multiple levels and stages of the integration and aggregation process along the ESG analysis cycle. We use various data providers, selected based on methodology, coverage, quality, and granularity, to obtain the most relevant data.

### **Engagement policies**

Engagement and voting are integral to Candriam's investment process. Our Engagement Policy involves direct dialogues, collaborative initiatives, active voting, and promoting sustainable development. These activities are key to our fiduciary duty, helping us assess ESG risks and opportunities and mitigate PAIs.

### **Changes from the previous version**

This version adds the principle of Good Governance for sovereign issuers and its integration in Candriam's ESG methodology. This version also includes updated exclusion levels, PAIs, and includes an E/S contribution assessment. Additionally, this version includes a modification on the minimum sustainable investment threshold, which has been increased to 80%.

## 2. No significant harm to sustainable investment objectives

Under the SFDR, the principle of ‘Do No Significant Harm’ is linked to the consideration of Principal Adverse Impacts (PAIs). The investments in Candriam’s Article 9 products adhere to the DNSH principle, ensuring they do not harm any of the sustainable investment objectives pursued by these products. The following sections explain in detail how Candriam applies the DNSH principle in our investment process, including the consideration of PAIs and alignment with international norms.

### 2.1. How the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex, are taken into account

PAIs are embedded in Candriam’s sustainable investment approach through a corporate and sovereign ESG analysis. PAIs are considered at multiple steps of our ESG process and through several different means. This allows us to conduct an in-depth assessment of the risks and opportunities linked to PAIs.

#### a. Summary

As an integral part of its sustainable investment approach, Candriam considers the PAIs of its investment decisions on sustainability factors. The paragraphs that follow present a consolidated view of Candriam’s Principal Adverse Impacts on Sustainability Factors.

#### b. Description of principal adverse sustainability impacts

PAIs are defined as negative, material (or likely-to-be material) effects on sustainability factors (such as environmental, social and employee matters, respect for Human Rights, anti-corruption and anti-bribery matters) that are caused, compounded by, or directly linked to investment decisions and advice performed by the legal entity, i.e. Candriam.

At Candriam, the consideration of such potential negative effects is central to our sustainable investment approach. Accordingly, PAIs are considered in our ESG analytical frameworks through three complementary steps:

1. Negative screening
2. ESG analysis and assessment
3. Stewardship (dialogue and voting)

These steps are outlined below:

#### 1. Negative screening

PAIs are considered via our negative screening process, which encompasses Controversial Activities Analysis and Norms-based Analysis:

- **Controversial Activities Analysis:**

Candriam’s Controversial Activities Analysis is essential in implementing the DNSH principle as it identifies issuers that carry out activities that exhibit a very negative profile from both a sustainability and financial perspective. The potential harm these activities do to environmental and social objectives, and the risks associated with investing in these activities – such as systemic and reputational risks – cannot be offset by financial gains. Candriam excludes issuers involved in such activities according to revenue thresholds and other criteria set out in [Candriam’s Exclusion Policy](#). For example, Candriam excludes companies involved in the development, production, testing, maintenance, and sale of controversial weapons, as well as those involved in activities such as thermal coal, oil and gas extraction, and high-energy-intensity operations. Moreover, companies directly involved in the manufacturing of tobacco products are excluded from all of our investments,



as well as those deriving more than 5% of their revenues from retailing of tobacco products<sup>3</sup>. Candriam's Sustainable Investments are compliant with the broader CTB (Climate Transition Benchmark) and PAB (Paris-Aligned Benchmark) exclusion criteria.

- **Norms-based Analysis**

Candriam's Norms-based assessment determines whether a company complies with the 10 principles of the United Nations Global Compact (UNGC) in the areas of Human Rights, Labour, Environment and Anti-Corruption. The analysis also assesses whether companies are in violation of the principles of the OECD Guidelines for Multinational Enterprises. The exclusions resulting from this analysis allow us to implement the DNSH principle, ensuring investments respect key principles and indicators and hence do not harm a range of environmental and social domains.

Our analysis encompasses the aforementioned UNGC and OECD Guidelines for Multinational Enterprises, as well as the UN Guiding Principles on Business and Human Rights, and the core principles of the International Labour Organisation's conventions on Labour Rights, as well as the protections outlined in the International Bill of Human Rights.

For sovereign issuers, Candriam's negative screening for sovereign issuers is applied through two analyses: Oppressive regimes and a normative filter:

- **Oppressive regimes:**

The first step of Candriam's negative ESG screening is to exclude<sup>4</sup> countries that are regarded as oppressive regimes, characterised by severe human rights violations, systemic ethical breaches, denial of fundamental liberties, and government-led conflict or repression. Through this filter we implement PAI 16.

- **Norms-based analysis:**

We exclude countries flagged as follows:

- Financial Action Task Force Call for Action List – state sponsors of terrorism;
- Freedom House's Freedom in the World Index – states that are considered Not Free.

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

## 2. ESG assessment

Candriam's ESG Investments and Research Department has developed a holistic ESG analytical framework for both corporate and sovereign issuers. They are analysed from an environmental, social and governance perspective, leading to ESG Ratings that consider the PAIs of these issuers both directly and indirectly.

For corporate issuers, Candriam integrates ESG data and analysis into investment decisions employing a two-pronged approach: 1) a Business Activities Analysis which evaluates the "What" (activities) of an issuer and 2) a Stakeholders Analysis which assess "How" a company interacts with its stakeholders.

To conduct an overall, in-depth ESG assessment of each issuer, Candriam deploys its proprietary ESG analytical framework, which is based on a two-pronged approach:

- **Business Activities Analysis:**

This analytical step examines *what* a company does, i.e. its activities. It is a strategic assessment of how a company's activities impact – adversely or positively – a range of Key Sustainable Challenges, including Climate change, Resource Depletion, Health & Wellness, Digitalisation and

<sup>3</sup> Candriam's full Exclusion Policy is available at the following link:

<https://www.candriam.com/siteassets/medias/publications/brochure/corporate-brochures-and-reports/exclusion-policy/candriam-exclusion-policy-en.pdf>

<sup>4</sup> For a detailed description of Candriam's SRI exclusion policy, please refer to the following link:

<https://www.candriam.com/siteassets/medias/publications/brochure/corporate-brochures-and-reports/exclusion-policy/candriam-exclusion-policy-en.pdf>

Demographic Evolution. Thus, this step allows us to identify the potential PAIs of companies' activities, in particular climate and other environment-related PAIs. As a result of the Business Activities Analysis, each company receives a **Business Activities Score**, that encapsulates the company's activities impact on the aforementioned Key Sustainability Challenges. This means that activities with negative externalities receive a negative score based on scientifically determined rationale and performance metrics (e.g., CO2/Kw)

- **Stakeholders Analysis:**

This analysis assesses *how* a company interacts with its stakeholders, including the Environment, Society, Customers, Suppliers, Investors and Employees. By evaluating the impacts, a company has on these stakeholders' long-term interests, this analysis allows us to address a range of PAIs, in particular in the social domain and those related to employees, Human Rights, corruption and bribery. Each company is given a **Stakeholder Score** which reflects these elements.

Importantly, our analytical framework integrates the notion of materiality – meaning that different Key Sustainability Challenges and Stakeholders, and therefore different PAIs, have different levels of relevance for different sectors.

For sovereign issuers, Candriam's proprietary ESG analysis is structured around four categories of sustainable development criteria: Human Capital, Natural Capital, Social Capital and Economic Capital. These four capital domains incorporate a wide range of material ESG criteria which we evaluate using KPIs, as defined by the framework. Our materiality assessment is performed at every level in the framework, ensuring that a country score properly reflects what is important for the future development of that particular country. Through the analysis of these four forms of sovereign capital, our analysis covers the PAIs defined by the regulation for sovereign issuers. For example, Candriam's Natural Capital pillar addresses GHG intensity (PAI 15) through a proprietary emissions model that tracks carbon emissions by industry and fuel type. This model accounts for emission trends, integrates sector-specific decarbonisation efforts, and imposes penalties for continued reliance on high-emission fuels like coal, oil, and gas. By adjusting carbon intensity based on decarbonisation progress, Candriam incentivises a transition to more sustainable practices.

### 3. Stewardship (engagement and voting)

Candriam's engagement activities contribute to avoiding or mitigating PAIs via dialogue and voting<sup>5</sup>, and are hence an additional lever in integrating the DNSH principle.

We prioritise engagements based on the most material and relevant ESG challenges confronting industries and issuers by considering the most important PAIs, as well as the repercussions of those challenges and adverse impacts on companies' activities, stakeholders, and society.

For each dialogue we initiate and for every vote we cast at special or annual general shareholder meetings, we assess what PAIs to consider and what the best engagement approach is. Our engagement (and escalation) choices also take into consideration our list of issuers exhibiting high PAI data, which in turn feeds our engagement watchlist. The relationships between engagement activities and PAIs are documented in detail in a dedicated, proprietary engagement tool, and reported on in our Annual Engagement Report, as well as in the PAI Entity Statement and Periodic Reporting Disclosure (PRD) Statement under the SFDR.

Candriam's engagement policy is validated by Candriam's Group Strategic Committee and is reviewed regularly.

<sup>5</sup> For Candriam's Engagement Policy, please refer to [engagement\\_policy\\_en.pdf](#). For Candriam's Voting Policy, please refer to [proxy\\_voting\\_policy\\_en.pdf](#).

## PAI monitoring process

In addition to the three levers outlined above, we have implemented a PAI monitoring process. The process serves as an additional layer that ensures the in-depth integration of PAIs and of the DNSH principle into our sustainable investment decisions.

This process is performed by the ESG Team in collaboration with Candriam's Risk Management Team. It is focused on issuers exhibiting outlier characteristics, which is to say very high PAI figures. Specifically, each month the Risk Management Team identifies issuers with PAI indicator figures higher than the 97.5<sup>th</sup> percentiles of their respective benchmarks, the so-called PAI outliers list. Two benchmark types are considered here: One for developed market investment-grade issuers (e.g., MSCI World, iBoxx Euro Corporate) and one for emerging market and high-yield issuers (e.g., MSCI Emerging Markets, ICE Global High Yield).

For such issuers, the ESG Team conducts an in-depth, nuanced assessment on PAIs currently under consideration and that are neither binary (Yes, No) nor percentages. This assessment is qualitative in nature rather than relying purely on hard exclusions based on absolute thresholds. In fact, we take into consideration the quality of data sourced from external providers as well as each company's specific circumstances and the actions it takes to mitigate PAIs. This approach allows for a comprehensive evaluation of PAI-related risks, of issuers' efforts to address these impacts, and of their future potential to operate in ways that do not significantly harm environmental and social objectives. Ultimately, the approach is designed to ensure that investments align with sustainability goals and mitigate adverse PAIs.

The outlier list is regularly reviewed by our Sustainability Risk Committee and informs engagement watchlists that guide escalation decisions.

For more details regarding the assessment of DNSH please refer to Definitions and Methodologies under the SFDR webpage via: <https://www.candriam.com/en-fr/professional/sfdr/#definitions-and-methodologies>.

## **2.2. How the sustainable investments are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights**

The alignment with international conventions on human and labor rights, environmental and corporate governance principles is implemented through Candriam's Norms-based Analysis, which is an integral part of Candriam's ESG analytical framework.

The investments made via Candriam's Article 9 products are subject to an in-depth Norms-based controversy Analysis, which examines issuers' compliance with international social and human rights, environmental and anti-corruption standards.

These norms include the United Nations Global Compact (UNGC) and the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD). Moreover, the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and International Bill of Human Rights are part of the many international references integrated into our analysis.



### 3. Sustainable investment objective of the financial product

Candriam's Article 9 products covered by this disclosure aim to make long-term positive contributions to key sustainability objectives relating to environmental and social domains. These objectives include, but are not limited to, addressing climate change, promoting resource efficiency, preserving biodiversity and reducing inequalities.

For sovereign issuers, we evaluate notably how environmentally efficient countries are in developing their Human, Social, and Economic Capitals.

The following sections describe these approaches in more detail: first for corporate issuers and then for sovereign issuers.

#### 3.1. Sustainable investment objective and corporate issuers

To ensure these objectives are met, we conduct a materiality-based, forward-looking assessment of companies' sustainability. This evaluation is carried out through two distinct yet interconnected processes:

- **Overall ESG assessment:** Firstly, our analysis allows for an evaluation of the overall sustainability of issuers, which results in an overall ESG Rating for each issuer.
- **Specific E/S contribution assessment:** Secondly, Candriam uses specific elements of its ESG analytical framework to additionally assess issuers' contributions to environmental and social objectives, leading to an Environmental Contribution Score and/or Social Contribution Score. This process is detailed below:

##### Overall ESG assessment

Candriam uses its proprietary ESG analytical framework to conduct in-depth assessments of issuers' overall sustainability and of their alignment criteria outlined in Candriam's Sustainable Investment definition<sup>1</sup>. This overall ESG analysis results in an ESG Rating for each issuer that reflects the company's sustainability performance across several dimensions. This assessment combines an evaluation of how a company's activities contribute to key sustainability challenges (Business Activities Analysis) and an assessment of how it treats stakeholders and manages ESG-related risks (Stakeholders Analysis).

These two analytical dimensions are described in more detail below:

- **Business Activities Analysis**

Through their business activities, companies are exposed to long-term structural Key Sustainability Challenges that can significantly influence their operating environment and create risks or growth opportunities.

Similarly, these companies, through their activities, can contribute positively or negatively in addressing these long-term sustainability challenges. Candriam has identified five Key Sustainability Challenges that are likely to reshape the functioning of our economies:

- Climate Change
- Resource Depletion

<sup>1</sup> Candriam's process for assessing issuers' alignment with the regulatory criteria for 'Sustainable Investments' is based on Candriam's current understanding of regulatory standards and is subject to review at any time.

- Health & Wellness
- Digitalisation
- Demographic Evolution

Various sectors will face different sustainability challenges and varying exposures to potential disruption. These risks and opportunities, as well as their impact on sectors, are taken into account in this part of Candriam's ESG analysis. We assess and score the contribution to the relevant Key Sustainability Challenges of each of the more than 1,200 Business Activities that exists across economic sectors and that are covered in our ESG Analysis framework. An issuer's Business Activities Score ranges from 0 (strongly detrimental) to 100 (strongly contributing), based on scientific research, academic and industry expert knowledge.

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

- **Stakeholders Analysis**

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

Candriam has identified six categories of stakeholders that are essential to current and future corporate sustainability and that can be impacted by corporate behaviours:

- Environment
- Society
- Investors
- Employees
- Suppliers
- Customers

As a result of Candriam's ESG analysis, each issuer is assigned two scores, which evaluate different dimensions of its ESG performance:

- **Business Activities Score** that determines whether the company's activities (what a company does) are contributing to and being impacted positively or negatively by Key Sustainability Challenges (Climate change, Resource Depletion, Health & Wellness, Digitalisation, and Demographic Evolution).
- **Stakeholder Score** that evaluates how the issuer manages its impacts on and the interests of its key stakeholders (Environment, Society, Employees, Suppliers, Customers and Investors).

Together, the Business Activities Score and the Stakeholder Score determine an overall ESG Rating for each issuer. The overall ESG Rating measures both the positive and negative contributions companies make to Key Sustainable Challenges and to their stakeholders, as well as the steps they take to avoid causing significant harm. For each sector, a different level of materiality, i.e. importance (and thus weight), is given to the Business Activities and Stakeholders Analysis dimensions, depending on whether it is the sustainability of activities or the responsibility of practices that are key in determining companies' sustainable performance. A company's ESG Rating is determined by the materiality-

weighted combination of its Business Activities Score and its Stakeholders Analysis Score. The ESG Rating can range from ESG1 (sustainability leader) to ESG10 (sustainability laggard / detrimental). The overall ESG Rating constitutes a first criterion for meeting the philosophy of 'Sustainable Investment' outlined in SFDR and thus for being considered a 'Sustainable Investment'. The thresholds applied depend on the type of company. For companies in developed countries, an overall ESG Rating of ESG 1 to ESG 5 is required, while emerging market and high-yield companies must have an ESG Rating of ESG 1 to ESG 6.

### **Specific E/S contribution assessment:**

In addition to the overall ESG assessment, Candriam has developed and implemented a dedicated process for assessing and scoring the contributions of companies to environmental and/or social objectives. This process results in an Environmental (E) and Social (S) Contribution Score for each company. This process integrates specific elements of the Business Activities and Stakeholders Analysis to evaluate sustainability and responsibility. Depending on the nature of the sector, Candriam evaluates the Environmental Contribution, the Social Contribution, or a combination of both.

- **Environmental Contribution**

For Environmental Contributions, Candriam examines how companies address Climate Change and Resource Depletion through their Business Activities and management of environmental impacts on stakeholders.

At Business Activity Level, our analysis covers a broad range of environmental objectives, including the mitigation of and adaptation to climate change, the protection of biodiversity (particularly water resources), the creation and adoption of circularity solutions, and pollution prevention and management. For each Key Sustainability Challenge, we consider a wide range of factors and indicators to assess each company's contribution.

At Stakeholder Level, our analysis evaluates how companies manage their stakeholders and integrate their long-term interests into their strategies. In the context of our assessment of companies' Environmental Contribution, we conduct an in-depth analysis into how companies manage the Environment in particular. The Environment pillar of the Stakeholders Analysis focuses on the assessment of environmental impacts and their management. It covers water consumption and related emissions, other atmospheric emissions, land use and biodiversity, disposal and recycling, and energy and climate change. This analysis considers elements such as environmental strategy, capital allocation alignment, and biodiversity strategy.

- **Social Contribution**

For Social Contributions, Candriam assesses and scores companies' contributions to social objectives based on our overall ESG assessment approach.

At the Business Activity level, our analysis examines companies' economic activities in relation to Key Sustainability Challenges and their contributions to these issues. The key challenges essential to understanding Social Contributions include Health & Wellness and, for certain sectors, Digitalisation.

At the Stakeholder level, Candriam evaluates how companies across all sectors manage Employees and Suppliers. This analysis covers various themes, including recruitment and retention, working conditions, staff relations, and supplier practices.

### **Environmental and Social Contribution Scores**

The Environmental and Social Contribution Score, ranging from 0 to 100, combines scores from Business Activities and Stakeholders Analysis. Next to the ESG Rating, these E/S contribution scores

determine if companies qualify as 'Sustainable Investments' under the SFDR, as outlined under article 2(17) of SFDR.

Companies must meet a minimum score of 50 in either category or both and comply with overall ESG Ratings, the DNSH principle, and Good Governance criteria. Depending on the sector, companies are evaluated for their environmental, social, or combined contributions to determine their eligibility for sustainable investment.

For further information, please refer to Candriam's Sustainable Investment Definition, which is available on the [SFDR webpage of Candriam's website](#).

## **3.2. Sustainable investment objective and sovereign issuers**

For sovereign issuers, Candriam's sovereign ESG analytical framework is based on the concept of environmental efficiency. Countries are evaluated on the environmental efficiency with which they create well-being in the form of Human, Social and Economic Capital. This approach allows us to account for the potential depletion of or damage to the natural environment in the process of creating this well-being.

## **3.3. Specific objectives in Candriam's Article 9 products**

Candriam's Article 9 products have sustainability-related objectives that may vary depending on the strategy. However, most of these products share the objective of improving the ESG score compared to the reference benchmark.

Candriam implements climate-related or social Key Performance Indicators in directly managed portfolios, which may vary by product.

Some products, as per their prospectus, aim to reduce carbon footprint by at least 30% compared to their benchmark or maintain a specific level of research and development expenditure as a proportion of the company's market capitalisation.

Depending on the product, other Sustainability indicators related to climate change, such as alignment with a specific temperature objective, quality of living or a positive contribution to United Nations Sustainable Development Goals (UN SDGs), may have been defined.

For more information on specific product objectives, please refer to the dedicated webpages for individual products, accessible through Candriam's website.

## 4. Investment strategy

### 4.1. The investment strategy used to attain the sustainable investment objective

In order to achieve the sustainable investment objective, Candriam's Article 9 products use an investment strategy that aims at supporting innovative ESG solutions while at the same time reducing ESG risks as well as principal adverse impacts in order to assess the contribution of issuers to sustainability-related goals and challenges. To achieve this, the investment strategy employs a disciplined and comprehensive ESG framework, detailed below.

In its investment strategies, Candriam considers any sustainability-related challenge, that is all ESG-related risks and opportunities, that could potentially impact an issuer operationally, reputationally, strategically and/or financially. The ESG risks (and opportunities) are defined as follows and are integrated into the four dimensions mentioned above:

- **Environmental:** Candriam assess climate-related physical and transition risks using a double-materiality approach. Our proprietary ESG Analysis framework assesses how Business Activities in the way they impact the environment, either positive or negative, could present risks or opportunities to the issuer. Business Activities On the other hand, environmental events may create physical risks that result from climate change, biodiversity loss, or changing ocean chemistry. Additionally, companies may be negatively impacted by mitigation measures, with effects varying based on their exposure and adaptation to environmental risks.
- **Social:** Candriam considers risks and opportunities stemming from human capital, customers, human rights, and supply chain management. Factors like gender equality, compensation, health and safety, and working conditions impact the social dimension of an issuer. Social risks include potential violations of human or labour rights within the supply chain and are weighted according to the issuer's sector to enhance risk assessment.
- **Governance:** These aspects are linked to the governance structure and include board independence, board oversight and control, relationships with employees, compensation, and compliance or tax practices. Governance risks arise from poor governance, including minority protection loss, succession risk, power concentration, and lack of board independence at the Audit Committee level.

#### a. Description of the type of investment strategy used to attain the sustainable investment objective of the financial product

Candriam's Article 9 products use an investment strategy that fully incorporates thorough ESG analysis. In fact, each issuer in the potential investment universe is analysed through our ESG analysis framework. This analysis results in the identification of eligible issuers that allow the products to meet their sustainable investment objective(s).

The cornerstones of this ESG analysis are presented below, first for corporate issuers, then for sovereign issuers.

Please note that the strategies described below apply to Candriam's Article 9 products in general. Additionally, specific investment strategies can be applied to certain products on a case-by-case basis. Such ad-hoc investment strategies are described in the products' related webpages of Candriam website.

To assess the sustainability-related risks and opportunities of a corporate issuer and to attain the sustainable objective(s) of its financial product, we apply a multi-dimensional analysis that sets clear



requirements and minimum thresholds. Candriam's corporate ESG analytical framework is structured around the following components:

### **Proprietary ESG analysis:**

Candriam's proprietary ESG analysis combines Business Activities and Stakeholders Analysis for a comprehensive, materiality-based, and forward-looking sustainability assessment. This analysis is applied through two distinct but interconnected processes, as described in section 3.

- **Overall ESG assessment**

Our analysis allows for an evaluation of the sustainability-related risks and opportunities that issuers face and assesses corporate sustainability. This overall ESG analysis results in an ESG Rating for each issuer that reflects the company's sustainability performance across several dimensions.

- **Specific E/S contribution assessment:**

Candriam uses specific elements of its ESG analytical framework in a dedicated process for assessing contributions to environmental and/or social objectives, which results in an Environmental Contribution Score and/or Social Contribution Score for each issuer.

### **In-depth negative screening:**

Candriam's in-depth negative screening identifies and excludes companies that fail to meet minimum safeguards regarding international norms or engage in activities harmful to environmental and social sustainability. In this process, PAIs and minimum safeguards, the cornerstones of the DNSH principle, are considered through two key analyses: Controversial Activities Analysis and Norms-based Analysis:

- **Controversial Activities Analysis**

Candriam's Controversial Activities Analysis identifies issuers that carry out activities that exhibit a very negative profile from both a sustainability and financial perspective. The potential harm these activities do to environmental and social objectives and the risks associated with investing in these activities - such as systemic and reputational risks - cannot be offset by financial gains. Candriam excludes issuers involved in such activities according to revenue thresholds and other criteria set out in our Exclusion Policy. Candriam's Article 9 products apply our Level 3 SRI Exclusions. This policy excludes companies that are significantly exposed to controversial activities such as, but not limited to, tobacco, thermal coal, weapons and unconventional oil and gas production, adult content, alcohol, gambling, etc.

For a detailed description of the Level 3 SRI Exclusions, please refer to the [Exclusion Policy | Candriam](#).

- **Norms-based Analysis**

To reduce ESG risks and account for far-reaching societal changes, Candriam's Article 9 products apply a Norms-based controversy Analysis. This analysis allows us to identify and exclude companies that have significantly and repeatedly breached the Principles the OECD guidelines for multinational enterprises or the United Nations Global Compact on Human Rights, Labour, Environment and Anti-Corruption.

In order to pass the Norms-based Analysis, issuers must be free of severe controversies related to impact, duration, frequency, or inadequate management response in any area. Our approach evaluates controversy severity beyond the UN Global Compact Principles, encompassing all materially harmful corporate practices. This approach upholds minimum safeguards and aligns with the UNGC, OECD Guidelines, UN Guiding Principles on Business and Human Rights, ILO conventions on labor rights, and the International Bill of Human Rights.

### **Engagement: Dialogue and Proxy Voting:**

Engagement and voting are key parts of Candriam's sustainable investment process, given their importance as a means to discuss and foster sustainability impacts with investee companies. Candriam

engages with the management of investee companies on a range of issues in relation to the sustainable objective of the respective product. This can take the form of a direct dialogue between Candriam and the representatives of the company or take place via collaborative initiative.

### **Investment strategy used for sovereign issuers to attain the sustainable investment objective of the financial product**

Candriam's sovereign ESG analytical framework assesses whether or not countries are compatible with the sustainable investment objective by assessing their ability to sustainably develop four forms of sovereign capital: *Natural Capital, Human Capital, Social Capital and Economic Capital*.

Moreover, we apply negative filters for sovereign issuers, which consist of:

An assessment to determine which countries meet our minimum standards of democracy and degree of freedom, based on:

- Candriam's Highly Oppressive Regimes List – countries with severe violations of Human Rights perpetrated by the State.
- Financial Action Task Force "Call for Action" List – States suspected of supporting and/or financing terrorism.
- Freedom House's Freedom in the World Index – States that are considered "Not Free" by the Freedom House organisation.

We reserve the right to exercise discretion regarding countries that violate international agreements but are not yet reflected in available data.

### **b. Binding elements of that strategy to select the investments to attain that objective**

The binding elements of the strategy used to select the investments to attain the sustainable investment objectives are based on Candriam's ESG analysis framework comprising several ESG assessment criteria that determine an issuer's eligibility for investment.

Candriam's ESG assessment includes Stakeholders Analysis and Business Activities Analysis, as described above. This results in ESG Ratings, which determine issuer eligibility and serve as a binding element for selection in Candriam's Article 9 products. For companies in developed countries, the overall ESG Rating must be between ESG 1 (best) and ESG 5 (average). For companies in emerging markets and those in the high-yield universe, the overall ESG Rating must be equal to or better than ESG 6.

In addition, Candriam evaluates the Environmental Contribution, the Social Contribution, or a combination of both, depending on their nature. To be eligible for 'Sustainable Investment,' companies must have an Environmental Contribution Score of 50 or higher and/or a Social Contribution Score of 50 or higher.

Furthermore, Norms-based Analysis and Controversial Activities Analysis are applied.

To qualify as a Sustainable Investment, issuers must meet all criteria set by Candriam. Based on this framework, the investment strategy aims to maintain a minimum share of sustainable investments

Some products, as defined in the pre-contractual documentation, aim to have a carbon footprint at least 30% lower than their respective benchmark.

Depending on the product, other climate change or quality of living-related to sustainability indicators can be defined, such as an alignment with a specific temperature objective or a positive contribution to the UN Sustainable Development Goals. For more binding elements on a product-specific basis, please refer to the [product webpages on Candriam's website](#).

### **c. How the strategy is implemented in the investment process on a continuous basis**

The investment strategy is implemented on a continuous basis following a well-defined investment process and a strict risk management framework. The risk management framework is described within our Sustainability Risk Policy. Risk monitoring of the investment strategy of the financial product aims to ensure that investments are, at all times, aligned with and take into account the environmental, social and governance objectives and sustainability thresholds defined for the product.

Compliance with the investment process and the risk management framework is monitored through the constraint servers in the portfolio management system of fund managers. Candriam's Risk Management Department is solely responsible for setting the risk constraints of fund portfolios, including those that relate to the binding ESG elements. Moreover, in the case of rules that cannot be subject to regular controls by the Risk Management Department due to technical reasons, the Sustainability Risk Committee is informed.

As further explained in Section 6, any breach is reported to the portfolio manager, with corrective action requested. The (Global) Head of the portfolio manager and the Global Head of ESG Investment and Research are also informed. If relevant, the portfolio manager may be asked to explain the breach.

Newly identified breaches within the ESG Universe are reviewed by Candriam's Sustainability Risk Committee, which may take further action, such as informing Portfolio Management teams, modifying internal rules, or notifying the Executive Committee.

## **4.2. The policy to assess Good Governance practices of the investee companies and sovereign issuers**

### **a. Corporate issuers**

Good Governance practices are pivotal to a sustainable future. Candriam uses 5 key pillars to ensure the soundness of a company's governance.

Corporate governance is a key aspect of Candriam's Stakeholders Analysis. In this respect, our ESG Analysts assess:

- How a company interacts with and manages its relevant stakeholders, and
- How a company's board addresses its governance and fulfills its duties with respect to disclosure and transparency as well as the consideration of sustainability objectives.

To assess a company's governance practices with respect to sound management structures, employee relations, remuneration of staff and tax compliance as defined by SFDR, we evaluate companies' good governance on 5 key governance pillars (amongst other criteria):

1. Strategic direction: an assessment of the independence, expertise and composition of the board, to ensure that the board acts in the best interests of all shareholders and other stakeholders and as a counterbalance to management.
2. Audit committee and auditor independence: an evaluation to avoid any conflicts of interests.
3. Transparency on executive remuneration: an analysis of how executives and the remuneration committee can be held accountable by shareholders, and whether top executives' incentives align with long-term shareholder interest.
4. Share capital: an examination of whether all shareholders have equal voting rights and are treated fairly.
5. Financial conduct and transparency.

## Assessment of Good Governance

Candriam assesses companies' compliance with Good Governance practices, as outlined in SFDR, through the Stakeholders Analysis that is part of its overall ESG assessment, as well as through its Norms-based Analysis.

- **Stakeholders Analysis**

Candriam's Stakeholders Analysis evaluates a company's ability to incorporate stakeholder interests into its long-term strategy and impact. These stakeholders are the Environment, Society, Employees, Suppliers, Clients, and Investors. The Good Governance quality is examined in detail, notably through the Investors pillar. The Investors Score of an issuer should not be inferior to 10 to avoid being screened out due to lack of appropriate corporate governance. Companies for which this analysis reveals incompatibility with Good Governance practices will not be eligible for 'Sustainable Investment'.

- **Norms-based Analysis**

Candriam's Norms-based Analysis examines companies' alignment with Good Governance principles and ensures adherence to anti-corruption and labour standards, excluding those with severe violations. This includes, among others, severe controversies regarding bribery of national public officials, abuse of functions, illicit enrichment, financial obstruction or irregularities, tax evasion, or anti-competitive practices.

For more details regarding the assessment of Good Governance practices please refer to Candriam's Sustainable Investment Definition under Definitions and Methodologies of the [SFDR webpage on Candriam's website](#).

## **b. Sovereign issuers**

Sovereigns' Good Governance practices are pivotal and assessed at all levels of our Sovereign ESG analysis, to ensure our investments participation in a sustainable future within countries and across all regions. Candriam articulates the evaluation of the Good Governance of sovereign issuers around two analyses:

- Four Capitals that constitute risks and opportunities of a country:
  - Natural Capital: Stock of natural resources managed by the country.
  - Social Capital: Trust, norms and institutions which people can rely on to solve common problems and create social cohesion.
  - Human Capital: Human productivity to which the country participates through education and other initiatives.
  - Economic Capital: assessing the level of economic activity viability.
- Normative filter, excluding countries falling under the scope of the below classification or list:
  - "Not Free" by Freedom House
  - Candriam's Oppressive Regime List
  - "Call to Action" by Financial Action Task Force

## 5. Proportion of investments

### 5.1. A narrative explanation of the investments of the financial product

In line with SFDR requirements, and using Candriam's proprietary ESG analytical framework, an issuer's compliance with the characteristics of a "sustainable investment" determines its eligibility for investment. The following sections provide further explanations on how we apply the notion of sustainable investment.

#### a. For Corporate issuers

Candriam's proprietary ESG analytical framework for corporates enables setting clear requirements and minimum thresholds to identify the companies that qualify as sustainable investments. We ensure that these companies:

- Engage in economic activities that contribute to environmental and/or social objectives,
- Do not cause significant harm to any other environmental and/or social objective and comply with minimum safeguards, and
- Respect Good Governance principles.

Through our ESG analytical framework for corporates, we assess a company's ability to contribute to environmental and/or social objectives. In order to evaluate whether a company meets the requirements of SFDR for sustainable investments, we:

- Conduct two negative screenings: Norms-based Analysis and Controversial Activities Analysis. These screenings include minimum safeguards with respect to international norms and conventions and allow for the exclusion of activities that Candriam deems harmful to environmental and/or social sustainability objectives.
- Perform two positive ESG assessment and screenings leading to an ESG Rating: Stakeholders Analysis and Business Activities Analysis. These screenings enable Candriam to identify and assess sustainability-related risks and opportunities, as well as issuers' contributions to sustainability objectives.
- Conduct an E/S contribution assessment: For this assessment, Candriam applies specific elements of its ESG analytical framework in a dedicated process to assess contributions to environmental and/or social objectives, resulting in an Environmental Contribution Score and/or Social Contribution Score for each issuer.

For more details regarding these methodologies and definitions, please refer to the Definitions and Methodologies section of the [SFDR webpage on Candriam's website](#).

#### b. For Sovereign and supranational issuers

Candriam's ESG analytical framework for sovereign and supranational issuers enables to set clear requirements and minimum thresholds to identify issuers that qualify as sustainable investments.

##### **Sovereign issuers**

A sovereign issuer is considered a 'sustainable investment' if the country:

- Is not considered oppressive according to Candriam's Oppressive Regime Analysis,
- Is not on the Financial Action Task Force Call for Action list,
- Is not identified as not free by Freedom House, and



- Meets our criteria for ESG eligibility across Natural Capital, Human Capital, Social Capital and Economic Capital.

For more details about these methodologies and definitions, please refer to the SFDR section on the Candriam website.

### **Supranational issuers**

A supranational issuer is considered a sustainable investment if its mission makes a positive contribution to the economic and social development of regions and countries and if it has not committed any major systematic breach of the Principles of the UN Global Compact, according to Candriam's Norms-based Analysis.

Please note that these definitions of sustainable Sovereign and Supranational issuers may evolve in response to further regulatory clarifications.

## **5.2. Proportion of the investments of the financial product with a sustainable investment objective.**

In accordance with SFDR, Candriam has defined a minimum proportion of sustainable investments for its Article 9 products. At least 80% of the total net assets of Candriam's Article 9 products are considered as sustainable investments within the meaning of the SFDR. A maximum of 20% of "non-sustainable investments" can be allocated to these products, however, respecting clear conditions as explained below.

## **5.3. Purpose of the remaining proportion of the investments of the financial product**

The maximum proportion of "non-sustainable investments" is 20%. These investments comply with minimum Environmental and Social safeguards. Please find more information on the characteristics and use of these investments below.

- Cash: Cash at sight, reverse repos needed to manage the liquidity of the financial product following subscriptions/redemptions and/or being the result of the market exposure decision of the underlying fund;
- Issuers that were considered sustainable investments at the moment of the investment but subsequently evolved and are no longer fully aligned with sustainable investment criteria. These investments are to be sold based on the principles of our divestment process for sustainable strategies;

Non-single name derivatives instruments can be used for efficient portfolio management and/or for hedging purposes and/ or temporarily following subscriptions/redemptions.

## **5.4. A description of the contribution and no significant harm of sustainable investments to the sustainable investment objectives**

In our evaluation of how issuers contribute to sustainable investment goals, we incorporate assessments of the DNSH principle and integrate PAIs into our analysis through multiple complementary steps, as outlined below.

The consideration of adverse impacts is central to Candriam's sustainable investment approach. Consequently, PAIs are considered throughout the entire ESG analytical process and factor into investment decisions through the following means.

### **a. For corporate issuers**

For corporate issuers, PAIs as well as companies' potential positive contributions and negative effects on the issues represented by the PAIs, are integrated by means of:

#### **1. Proprietary ESG analysis / ESG Rating**

Our ESG analytical framework considers and assesses PAIs from two distinct, but interlinked, angles:

- The company's Business Activities and how they impact, either positively or negatively, key sustainable challenges such as climate change and resource depletion.
- Company's interactions with key stakeholders.

#### **2. Negative screening**

By excluding companies based on a Norms-based Analysis and due to their involvement in controversial activities, we cover various PAIs.

#### **3. Engagement and voting**

Through dialogue and voting activities, Candriam further covers PAIs and avoids or reduces the extent of adverse impacts. The ESG analytical framework and its results feed our engagement process, and vice versa.

### **b. For sovereign issuers**

For sovereign issuers, we integrate PAIs and ensure compliance with the 'do no significant harm' principle and the criteria for sustainable investment through:

1. Sustainable development criteria: we assess key negative sustainability impacts around four sustainability dimensions: Natural capital, Human capital, Social capital, and Economic capital.
2. Negative Country Screening, which includes:
  - Candriam's list of highly oppressive regimes - States with serious human rights violations.
  - Freedom House's World Freedom Index - states considered «not free».

The integration of PAIs on sustainability factors is based on the materiality or likely materiality of each indicator for:

- The specific industry / sector, in the case of companies.

The specific country, to ensure that a country's score adequately reflects the short, medium and long-term problems, challenges and/or opportunities that matter for that country's future development.

## 6. Monitoring of sustainable investment objective

The continued monitoring of sustainable investments is crucial, and is ensured by an ESG investment policy, specific fund management investment committees, risk management and independent compliance controls. In case of breaches, these are reviewed by a Sustainable Risk Committee which will decide on suitable actions. Details of these monitoring mechanisms are provided in the next paragraphs.

Candriam's ESG investment process is a two-step process that first of all calls for the definition of the ESG-eligible investment universe. Candriam's ESG Analysts provide views on issuers that determine the eligibility and, as a consequence, the ESG investment universe for the portfolio manager teams. Any investment outside the ESG eligible universe is prohibited.

The second step involves selection within this universe using a combination of financial and ESG considerations. Portfolio managers apply their respective investment processes and select issuers from the ESG-eligible universe.

All portfolio managers of Candriam's Article 9 products have to respect Candriam's ESG investment policy which defines the specific ESG constraints and divestment conditions in case of change in issuer eligibility.

Candriam's ESG Analysts are responsible for the sustainability analysis of companies and countries. The details of this ESG analysis, including conclusions and ratings, are archived in Candriam's dedicated ESG platform and database, which is used to create the ESG Universe. Each analyst is responsible for specific sectors. Country assessments are also handled by dedicated analysts.

This means they are responsible for the relevant sector-specific models, country assessment methodology, ESG ratings, and launching SRI Alerts in case of controversies and/or potential changes in the issuer's eligibility status.

It is the responsibility of the ESG Team to alert Portfolio Management Teams and Risk Management if sector models/countries assessment methodology, rules or principles change over time.

Similarly, it is the responsibility of ESG Team to alert Portfolio Management Teams and Risk Management if the list of controversial activities, including thresholds, changes. Apart from the Portfolio Management teams, Risk Management is responsible for second line-of-defense controls.

Compliance and Risk Management conduct independent verifications of the alignment of portfolios with internal rules. This is carried out through constraint servers managed by Risk Management. The Sustainability Risk Committee is informed of any rules that Risk Management cannot enforce due to technical limitations.

Any detected breaches are directly communicated to the relevant portfolio manager with a request to rectify the violation and bring the respective portfolio in line with rules and constraints. This communication is also shared with the (Global) Head responsible for the portfolio manager and with the Global Head of ESG Investment and Research. When relevant, the portfolio manager will be asked to provide an explanation for detected breaches. These breaches, which relate to the ESG-eligible universe, will also be reviewed by the Sustainability Risk Committee. This committee determines necessary actions, including communication to all portfolio managers, updates to internal rules, informing the Executive Committee, and other relevant measures.

ESG sustainability indicators, as defined in the prospectus of Candriam's Article 9 products (such as ESG score, carbon footprint, and temperature), are monitored by Risk Management to track the products' achievements against their environmental and social objectives at the fund level.

## 7. Methodologies

Candriam's Article 9 products aim to make long-term positive contributions to key environmental and social sustainability objectives while, at the same time, respecting the principles of "do no significant harm" and good governance.

### a. For corporate issuers

Candriam's ESG analytical framework assesses the sustainability of companies by setting minimum thresholds for qualifying as Sustainable Investments. For an investment to be deemed sustainable by Candriam, it must meet the following binding criteria:

#### Proprietary ESG analysis

Candriam's proprietary ESG analysis combines Business Activities Analysis and Stakeholders Analysis for a comprehensive, materiality-based, and forward-looking sustainability assessment.

- **Business Activities**

As part of this assessment, Candriam's ESG Analysts aim to measure to what extent companies' products and services contribute, positively and/or negatively, to these Key Sustainable Challenges, being Climate Change, Resource Depletion, Health & Wellness, Digitalisation and Demographic Evolution.

Through the integration of this Business Activities assessment, Candriam is able to allocate investments in its sustainable portfolios to companies contributing to one or several sustainability objectives.

- **Stakeholders**

This analysis assesses how a company interacts with and manages its stakeholders, including the Environment, Society, Customers, Suppliers, Investors and Employees. Each company is given a Stakeholder Score which reflects these elements. The Stakeholders Analysis confirms the company meets Good Governance standards, with an Investor Score of at least 10.

- **ESG Rating**

The overall ESG Rating is monitored for each company. It is one of the elements that Candriam measures and monitors in order to assess the achievement of the sustainability objective.

It measures both the positive and/or negative contributions companies make to Key Sustainable Challenges and the steps they take to avoid causing significant harm to the Environment, Society, Employees, Clients, Suppliers and Investors.

Companies must have an overall ESG Rating that is better than or equal to ESG 5 (and up to ESG 6 for emerging markets and high yield strategies).

#### Assessment of contributions to an environmental and/or social objective:

Candriam evaluates companies' environmental and social contributions, assigning Environmental (E) and Social (S) Contribution Scores. This process integrates the Business Activities Analysis and Stakeholders Analysis to evaluate sustainability and responsibility.

For environmental contributions, Candriam examines companies' roles in addressing Climate Change and Resource Depletion through their Business Activities and their management of environmental impacts on stakeholders.

For social contributions, Candriam assesses how companies address Key Sustainability Challenges like Health & Wellness and Digitalisation through their Business Activities and stakeholder management, particularly focusing on employees and suppliers.

Candriam uses these elements to assess contributions to environmental and/or social objectives, which results in an Environmental Contribution Score and/or Social Contribution Score for each issuer. The Environmental/Social Contribution Score, ranging from 0 to 100, combines scores from Business Activities Analysis and Stakeholders Analysis.

As outlined earlier, these E and S Contribution Scores determine whether companies qualify as 'Sustainable Investments' under SFDR. To be eligible, companies must score at least 50 in one or both categories and meet ESG Rating, DNSH, and Good Governance criteria.

### **In-depth negative screening**

Candriam's in-depth negative screening allows for the identification and exclusion of companies that do not present minimum safeguards with regards to international norms and engage in activities that are harmful to environmental and/or social sustainability. This negative screening ensures compliance with the DNSH principle and is applied through two analyses:

- **Controversial activities**

Candriam excludes controversial activities from all directly managed portfolios to mitigate sustainability risks. It also encourages third parties to adopt similar exclusions. For example, Candriam excludes all companies directly involved in the tobacco industry, including those generating any revenue from manufacturing or more than 5% from tobacco retail. Additionally, we exclude companies deriving over 5% of their revenue from coal-fired power generation or new thermal coal projects.

Candriam's Sustainable Investments also comply with CTB (Climate Transition Benchmark) and PAB (Paris-Aligned Benchmark) criteria. These sector-based exclusions and strict revenue thresholds establish minimum sustainability standards and help mitigate exposure to industries linked to environmental degradation or social harm.

- **Normative analysis**

Candriam excludes through normative analysis issuers that would prevent the achievement of the sustainable objective and in particular on issues related to Human Rights, Labour, the Environment and Anti-corruption. This analysis enables us to establish strong environmental and social indicators. Companies that breach these principles, including labour rights and anti-corruption standards, are excluded or divested if they do not meet the criteria.

### **b. For sovereign issuers**

For sovereign issuers, Candriam's analytical framework applies the concept of 'Environmental Efficiency'. Countries are evaluated on the efficiency with which they create well-being in the form of Human, Social, and Economic Capitals, accounting for potential depletion of or damage to the natural environment in the process of creating this well-being.

### **c. Sustainable investment objective**

Candriam's Article 9 products aim to contribute to environmental and social sustainability, including climate change mitigation, resource efficiency, biodiversity preservation, and inequality reduction. Some products target at least a 30% lower carbon footprint than their benchmark, while others align with specific temperature goals or UN Sustainable Development Goals.



## 8. Data sources and processing

### 8.1. Data sources used to attain the sustainable investment objective of the financial product

To achieve its sustainable investment objectives, Candriam integrates climate and social sustainability indicators into directly managed strategies. These can vary depending on the product.

Please find below a non-exhaustive list of Sustainability indicators monitored by Candriam in Article 9 products. For more details on Sustainability indicators, please refer to our policy on “ESG and Impact Indicators - Definitions and Methodology,” available on our [website](#).

Metric	Definition	Source
<b>GHG emissions</b>	<p>Company's carbon emissions measured in tons of carbon dioxide equivalent (tCO<sub>2</sub>-eq). Three scopes of carbon emissions can be distinguished:</p> <ul style="list-style-type: none"> <li>• Scope 1 emissions are direct emissions from owned or controlled sources.</li> <li>• Scope 2 emissions are indirect emissions from the generation of purchased energy.</li> <li>• Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions</li> </ul> <p>Green bonds are excluded from calculations and will be integrated once reliable and standardized data at the instrument level on their use of proceeds is available.</p>	Trucost
<b>Green bond</b>	Reflects issuer's intended use of the capital raised by the offering to finance projects that have positive environmental or climate effects (for example clean energy plants and projects such as wind and solar).	Bloomberg
<b>High stake</b>	Sectors listed in Article 3 of EU Climate Transition (CTB) and EU Paris-aligned Benchmark (PAB) Regulation	Delegated regulation (EU) C(2020) 4757
<b>Carbon Impact Analysis (CIA) Overall Rating</b>	The methodology is based on a bottom-up analysis, adapted to each sector, which models sectoral decarbonisation trajectories based on IPCC scenarios and IEA sectoral trajectories. It is a detailed assessment of the specific climate performance of each issuer, which integrates past, present and future performance in terms of greenhouse gas emissions, as well as analysis of the company's ability to meet its climate objectives, focusing in particular on its governance, strategy and investment plans.	Carbon4Finance
<b>ESG score</b>	<p>Score resulting from Candriam internal ESG analysis:</p> <ul style="list-style-type: none"> <li>• For corporate issuers, analysis is done from two angles: analysis of the impacts of Business Activities (products and services) and management of companies' key stakeholders.</li> <li>• For sovereign issuers, it incorporates the four essential dimensions of sustainability: human capital, natural capital, social capital and economic capital.</li> </ul> <p>More details on Candriam's ESG analysis methodology are available in the transparency code.</p>	Candriam
<b>Freedom House Index (FHI)</b>	<p>“Freedom in the World is an annual global report on political rights and civil liberties, composed of numerical Ratings and descriptive texts for each country and a select group of territories. The 2021 edition covers developments in 195 countries and fifteen territories.</p> <p>The report's methodology is derived in large measure from the Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948.”</p>	Freedom House
<b>R&amp;D expenditure</b>	Research and development expenditure as a proportion of the company's market capitalisation	Bloomberg
<b>% Doctorates</b>	Percentage of senior executives of the issuing company holding a doctorate	Bloomberg
<b>% Women Board</b>	Percentage of female board members at the issuer company	ISS-Oekom
<b>Gender Diversity Score</b>	<p>Score determined by Candriam internal analysis, based on four underlying categories of factors:</p> <ul style="list-style-type: none"> <li>• Gender parity within the company and at management level</li> <li>• Equal pay and professional-private life balance</li> <li>• Policies to promote gender equality</li> <li>• Engagement, transparency and responsibility</li> </ul>	Equileap, Candriam

Controversial activities are also used to attain the sustainable investment objective and are assigned different degrees of significance through the thresholds applied according to their materiality,

geographical scope, or sector of activity. In addition, some of them are part of the DNSH verification and contribute to the management of PAIs.

### Controversial Activities exclusion sources:

Exclusion <sup>1</sup>	Definition <sup>2</sup>	Source
Controversial Armaments <sup>3</sup>	Covers companies directly involved in (1) Anti-personnel landmines, (2) Cluster bombs, (3) Nuclear weapons, (4) Depleted uranium weapons & armour, (5) Chemical weapons or (6) Biological weapons (7) White phosphorus (8) Blinding lasers or (9) Non-detectable fragments	Candriam, ISS, MSCI
Thermal Coal <sup>3</sup>	Covers companies directly involved in the thermal coal industry and developing new projects through exploration, extraction, processing, transportation, and distribution.	Candriam, Trucost, Urgewald, Wood Mackenzie
Tobacco	Covers companies directly involved in the tobacco industry from the manufacturing or retailing of tobacco products.	MSCI, Sustainalytics
Armaments	Covers companies directly involved in nuclear weapons and conventional armaments and/or critical components / services of nuclear weapons and conventional armaments.	MSCI
Electricity Generation <sup>3</sup>	Covers power producing companies with carbon intensity and increasing coal and nuclear power generation capacity.	Candriam, MSCI, Trucost
Oil & Gas <sup>3</sup>	Covers companies directly and indirectly involved in conventional and unconventional oil & gas through prospecting, exploration, extraction, transportation and refining, and developing new projects.	Candriam, MSCI, Trucost, Urgewald, Sustainalytics, Wood Mackenzie
State Owned enterprises	Covers companies classified as State-Owned Enterprises (SoEs) and owned by countries excluded from Candriam's Sustainable Sovereign Universe.	Candriam, MSCI
Oppressive Regimes	Covers countries in which human rights are severely breached on a regular basis, fundamental liberties are systematically denied and the security of people is not guaranteed due to government failure and systematic ethical breaches and companies with Business Activities in these countries.	Candriam
Adult Content	Covers companies involved in any content that delivers material not appropriate for all audiences, i.e., that which appeals to primary violence drives or provides explicit portrayals of sexual subject matter.	MSCI, Sustainalytics
Alcohol	Covers companies involved in the manufacture and/or sale of alcohol products – i.e. brewers, distillers, vintners, retailers, owners & operators of alcohol establishments, restaurants that serve alcohol – as well as alcohol retailers.	MSCI, Sustainalytics
Animal Testing	Covers companies that perform animal tests on products for which animal testing is prohibited or where there is no legal obligation and there is no responsible policy.	MSCI, Sustainalytics
Gambling	Covers companies directly involved in gambling (machines or software manufacturers, casinos, lotteries, bookmakers, gambling websites, outlets with slot machines, gambling broadcasts) and indirectly involved in gambling through intermediary gambling access services (e.g., online payment service providers, general retailers, airports hosting gambling products).	MSCI, Sustainalytics
Pesticides	Covers companies producing pesticides linked to agriculture. Given their role in ecological disasters, including insect declines, health risks, and water quality issues, Candriam excludes all producers deriving more than 1% of revenue from pesticide production for agriculture.	MSCI, Sustainalytics
GMO	Covers companies in the food, beverage & tobacco or food & staples retailing, chemical, pharmaceuticals, agricultural, biotechnology or healthcare sectors without the presence of an applicable responsible policy or subject to significant, systematic and repeated breaches of international conventions regarding GMOs.	MSCI, Sustainalytics
Nuclear Power	Covers companies involved in the extraction, conversion and enrichment of uranium to produce nuclear fuel, the irradiation of the fuel in a nuclear reactor and/or the reprocessing/ disposal of spent nuclear fuel and other nuclear waste.	MSCI, Sustainalytics
Palm Oil	Covers companies involved in the production, processing, sale, and/or use of palm oil.	MSCI
Norms-based <sup>3</sup>	Covers companies uncompliant with the ten principles of the United Nations Global Compact for each of the main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti- Corruption (COR).	MSCI, Sustainalytics

Legend:

Climate related activity
Other

Notes :

(1) Candriam's exclusion policy is subject to the constraints inherent to the availability of ESG data and to the underlying data methodologies. Therefore, thresholds are analysed and implemented on a best-effort basis.

(2) Thresholds of these controversial activities are available in our Exclusion Policy.

(3) Controversial activities part of the DNSH verification and contribute to the management of PAIs.

## 8.2. Measures taken to ensure data quality

Candriam's ESG Investments and Research Department conducts ongoing, rigorous screening of ESG data providers. In particular, our ESG Analysts check data quality and compare indicators and their materiality. Through their due diligence and monitoring of ESG data providers, they analyse the relevance of existing ESG data sources and identify additional ESG data needs and data sources.

Furthermore, data quality controls are performed at several levels during each integration and aggregation of ESG data:

- **Data integration into Candriam's systems:** data quality controls, defined according to the data catalogue provided by external data providers, are performed to check data format validity and consistency and ensure data completeness, e.g. file import exhaustivity, issuer coverage variation.
- **Data coherence at both issuer and portfolio level:** close monitoring of a set of key sustainable indicators' variation, e.g. carbon footprint, temperature, with respect to predefined thresholds in order to detect outliers in a timely manner.

Detected anomalies, such as missing data or inconsistencies, are investigated internally and escalated to the source vendor when necessary. An internal verification process has been set up to overwrite a data point whenever other data sources and/or Candriam engagement activities with companies prove the external data provider's value to be wrong. Additionally, we review and enhance our data quality framework through periodic committees.

## 8.3. How data are processed

An end-to-end data processing pipeline has been implemented in order to collect, transform, aggregate, exploit and visualise data.

- **Data acquisition:** ESG data contains both external providers' raw data and internal data which consist of an aggregated file with exclusion information and additional external providers data.

Data providers' ESG data as well as internal ESG analysis data are updated on a regular basis. Those processes are largely automated, with a focus on continuous improvements.

- Mapping and transformation: the provider-specific identifiers are mapped using a predefined methodology thus enabling the linking of associated data. Raw data from external providers are then enriched and aggregated for further analysis.
- Exploitation and Visualisation: Data is disseminated to portfolio managers via internal tools and to clients through Candriam's regular reporting.

Candriam is constantly looking to improve its processes and is assessing the use of a central ESG aggregator to enhance data quality in the coming years.

## **8.4. Proportion of data that is estimated**

The variety of sources and methodologies complicates the identification of estimated data. Many data providers do not note the difference. Accordingly, they disclose data that is both estimated and reported by an issuer in the same criterion, making it impossible to crystallise the estimated data with precision.

## 9. Limitations to methodologies and data

### 9.1. Limitations to the methodologies

The following paragraphs summarise the limitations of the methodologies, primarily due to the lack of disclosed or verified data.

#### Data Coverage

Although ESG data is continually improving, certain data may be unavailable for all issuers in the fund or benchmark. As a result, sustainability indicator scores at the portfolio level may only represent a subset of issuers for which data is available. It is therefore always important to consider coverage ratios when interpreting the levels of the Sustainability indicators.

#### Product Eligibility

Sustainability indicator calculations are based on data availability for the relevant products/instruments, specifically those where a single-name issuer is identifiable (e.g., stocks, bonds, single-name CDS, equity derivatives). Products such as cash, FX forwards, index-linked products, and interest rate derivatives are excluded. Certain sub-sovereign issuer categories, being equivalent to either sovereign or corporate issuers, are excluded. Supranational issuers are also excluded.

#### Data granularity

For certain data types, the necessary level of granularity is not always available. Data is generally provided at the issuer level, but not always at the instrument level. For example, at this stage this is the case for carbon data on green bonds, where project-specific data is not yet readily available; this situation is addressed by excluding the green bonds from the Sustainability indicators calculation (both in the numerator and the denominator) rather than assigning issuer level data or a zero carbon value to the green bond.

#### Issuer mapping

Regarding mapping between subsidiaries and parent companies, ESG data is not always available at the level of the specific issuer held in position, but can be mapped with ESG data from a reference company of the same group. This is the case when the relationship between the two companies is deemed relevant from an ESG standpoint.

#### Harmonised methodology

For certain indicators such as temperature, the absence at this stage of common or harmonised definitions and hypothesis can make figures based on one provider's methodology hard to compare to figures based on other provider's methodologies. Thus, on the same portfolio, the temperature via one provider's methodology could differ from the temperature via another provider's methodology.

### 9.2. How such limitations do not affect the attainment of the sustainable investment objective

Limitations from the previous section do not materially affect our assessment because we are using various data providers as well as internal assessments to compare, evaluate and use the most relevant data as a basis to our ESG analysis/convictions.



The ESG Investments and Research Department strives to source information from diverse sources as we consider information from different providers to be complementary. This is the result of providers' varying coverage, methodologies, as well as culture which may ultimately lead to discrepancies in views and final ratings. To feed Candriam ESG analysis sector frameworks, ESG Analysts use internal and external research, comprising a multitude of private providers and various academic experts, sector federations, media and NGOs. These different assessments enable our ESG analysts to have a more holistic view of issuers.

New data sources and providers undergo a rigorous selection and due diligence process. The results of the due diligence process, along with the application of the data to Candriam portfolios and benchmarks, are presented to the Sustainability Risk Committee.

The sustainability indicators used to measure the portfolio's sustainable objectives are based on our conviction that the underlying data are sufficiently mature, with adequate coverage and quality. The choice of the sustainability indicators is validated by several committees (Sustainability Risk Committee, Clients Solution Committee and Product Range Committee).

Calculation methodologies and evolutions in the methodologies are reviewed by the Sustainability Risk Committee.

### **9.3. Actions taken to address such limitations**

Our proprietary analysis, using multiple data providers and internal research, allows Candriam to control the limitations by selecting the most relevant data in terms of sustainability.

We address such limitations through Candriam's ESG sector analysts' deep dive "ESG Conviction Analysis" and by constantly monitoring potential new relevant data sets from providers to achieve the best tracking practices.

Candriam's ESG Conviction analysis focuses on the most relevant ESG risks and opportunities to which issuers are exposed, in order to assess the materiality of ESG data and methodological issues.

Regarding sovereign issuers, methodological limitations and attribution pitfalls have led Candriam to broaden the sustainability objectives to include a wider range of considerations beyond climate change. Depending on product, the sustainability objective will be achieved through a combination of an overall sustainability score measurement and/or a specific country sustainability indicator relevant for the universe of sovereign issuers at stake.

## 10. Due diligence

The due diligence on the underlying assets of the financial product is carried out by Portfolio Management and Risk Management departments. It is supported by a tool that contains regulatory and contractual constraints and limits to prevent errors. The tool helps the Portfolio Manager to automatically check the order before it is sent to the market. Please find further details below.

In addition to the Portfolio Management Department, Risk Management Department is in charge of second line of defense control.

This department operates independently of the Portfolio Management Department and reports directly to Candriam's Group Strategic Committee.

The Risk Management Department also ensures that securities within financial products classified as Article 9 under SFDR comply with the Level 3 SRI Exclusions in our Exclusion Policy.

One of the tools used by this department is the constraints server, a tool that combines all the restrictions and limits required to manage the investment products. 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:

1. List of authorised investments;
2. Potential ratios (liquidity, dispersion) defined;
3. Main regulatory constraints applicable to the fund;
4. List of credit warnings» and «list of equity warnings;
5. Specific clients request defined in client's agreement.

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.

## 11. Engagement policies

Engagement with issuers of financial instruments, through dialogue and voting, is a key element of Candriam's investment process due to its potential impact on returns and its role for discussing impact of sustainability issues on investee companies. There are multiple ways to engage (dialogue, voting, collaborative initiatives...).

Candriam engages with the management of investee companies on a range of aspects. Engagement takes the form of individual or collaborative dialogues between ESG analysts and the representatives of the company and other stakeholders. Engagement also covers voting activities at annual or special general meetings.

Candriam has established an Engagement Policy as well as an active Voting Policy. Engagement is embedded in the core of our investment strategy. Active ownership and engagement are interrelated and crucial to mitigate risks and to enhance long-term value. This commitment to engagement is a fundamental part of the services we offer clients, reflecting our fiduciary duty to act in their best interests while promoting positive change.

Encouraging improved ESG information disclosures is the foundation of our engagement strategy, designed to enhance internal ESG research and analysis. It is typically initiated at the outset of the sustainability analysis process or research project, often in response to a lack of public disclosure on ESG-relevant topics or a specific event requiring clarification from the issuer. This engagement is crucial for integrating ESG criteria into investment decisions, as it ensures the availability of comparable and reliable data needed to produce objective and well-informed assessments. As detailed in our engagement policy, we also encourage through engagement adoption of recognised standards and best practices in managing ESG risks and opportunities.

Our engagement mainly address the following themes : Climate change, Biodiversity & Natural capital, Human Rights, Human Capital, Governance & Business ethics.

As mentioned earlier, and when relevant to product strategies, Candriam actively exercises its voting rights as a shareholder. The general principles of the proxy voting policy are as follows:

- Protection of Shareholder rights, such as the right to trade shares, participate and vote at general meetings.
- Equal treatment of all shareholders and in accordance with the "one share-one vote" principle;
- Transparency and Integrity of Financial and Non-financial Statements as a prerequisite for the efficient functioning of capital markets.
- Board accountability as the board is responsible to act in the interest of the sustainable medium- and long-term interests of all shareholders, and should demonstrate adequate oversight of materially relevant ESG risks.

**Our Engagement policy can be found under the following link:**

[Candriam | Engagement Policy](#)

**Our proxy-voting policy is available under the following link:**

[Candriam | Proxy Voting Policy](#)

## **12. Attainment of the sustainable investment objective**

The reference benchmark for Candriam Article 9 products does not qualify as an EU Climate Transition Benchmark or an EU Paris-Aligned Benchmark under Title III, Chapter 3a, of Regulation (EU) 2016/1011.

Following internal procedures of scrutiny and validation by different stakeholders and committees, Candriam has decided to use traditional, non ESG focused, benchmarks for all Candriam article 9 products. These benchmarks represent the state of the overall economy Candriam aims to compare its products against. Existing indices that explicitly take into account sustainability objectives are not deemed suitable for most strategies and their sustainability objectives. These sustainability focused benchmarks are based on ESG data from specific ESG data providers, with their own methodologies and scoring system that might differ from Candriam's approach to ESG. Candriam believes that, whilst such comparison might be interesting to investors, adopting these external ESG benchmarks could lead to a loss of diversification by encouraging all Candriam products to track external ESG scores rather than Candriam's own ESG scores.



## Disclaimer

### IMPORTANT INFORMATION

This product disclosure is provided in compliance with article 10 of SFDR. It contains information about the investments, methodologies and policies described by Candriam for the management of financial products referred to in article 8 or article 9 of SFDR. Such product disclosure must be read in addition to the information on the sustainability aspects of Candriam products which are available on each product webpage at [www.candriam.com](http://www.candriam.com). The decision to invest in a financial product must take into account all the characteristics and objectives of the product as described in its legal or contractual documentation

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