

Product name:

Legal entity identifier

ESGPCD\_Pm8 2 - Corporate + Sovereign + Inclusion\_2023-07-04\_en

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

## Environmental and/or social characteristics

**Does this financial product have a sustainable investment objective?**

Yes   No

<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective</b> : __% <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul>	<input checked="" type="checkbox"/> It promotes <b>Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 50 % of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with a social objective</li> </ul>
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective</b> __%	<input type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



### What environmental and/or social characteristics are promoted by this financial product?

The financial product promotes environmental and social characteristics as follows:

(1) for investments in companies:

- by seeking to avoid exposure to companies that present both significant and severe structural risks and that are the most seriously in breach of the normative principles;
- by seeking to avoid exposure to companies that are significantly exposed to controversial activities such as the mining, transport or distribution of thermal coal, the production or retail of tobacco, and the production or sale of controversial weapons (anti-personnel mines, cluster bombs, chemical, biological, white phosphorus and depleted uranium weapons);

(2) for investments in countries by seeking to avoid exposure to countries considered to have

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

oppressive regimes.

The financial product seeks to invest a minimum proportion of its assets in sustainable investments.

In order to construct a portfolio that promotes environmental and/or social characteristics in line with the criteria outlined above, Candriam assesses issuers through its corporate and sovereign ESG analysis frameworks:

- Candriam's corporate ESG analysis framework consists of four pillars: (i) analysis based on standards (ii) analysis of controversial activities, (iii) analysis of commercial activities and (iv) analysis of stakeholders.
- Candriam's sovereign ESG analysis framework is based on an assessment of the four pillars of sovereign capital: natural capital, social capital, human capital and economic capital. The framework also assesses countries on criteria based on standards, such as those relating to oppressive regimes.

The ESG analysis frameworks translate into sustainability assessments of corporate and sovereign issuers which are made available to the portfolio managers by means of communications in regular committee meetings, management systems and day-to-day interactions with the ESG analysts.

The portfolio managers take account of these corporate assessments on their investment decisions in order to construct portfolios responding to certain environmental and/or social characteristics, in particular by excluding issuers with inherent structural sustainability risks.

No benchmark has been designated in order to achieve the environmental or social characteristics promoted by the financial product.

● ***What Sustainability Indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The sustainability indicators used in order to measure the achievement of environmental and social characteristics are the following:

- indicator to ensure that there are no investments in issuers in breach of the UN Global Compact and the OECD Guidelines for Multinational Enterprises,
- indicator to ensure that there are no investments in issuers exposed to controversial weapons,
- indicator to ensure that there are no investments in issuers significantly exposed to the mining, transport or distribution of thermal coal,
- indicator to ensure that there are no investments in issuers significantly exposed to the production and distribution of tobacco.
- indicator to ensure that there are no investments in issuers of countries considered to be oppressive.

Other indicators may be envisaged in agreement with the client.

● ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

The sustainable investment objectives which the financial product intends to achieve for part of the portfolio are to have a positive environmental and social impact in the long term.

The contribution of these sustainable investments to these objectives is described in Candriam's sustainable investment policy.

<https://www.candriam.com/en/professional/sfdr/>

● **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

The sustainable investments made by the financial product do no significant harm to environmental or social sustainable investment objectives since Candriam takes account of companies' PAIs and pursues alignment with the OECD Guidelines for Multinational Enterprises and the UN Global Compact through the framework of its ESG ratings and its exclusion policy on non-normative and controversial activities.

Companies that contribute negatively to environmental and/or social sustainable investment objectives and that consequently do significant harm to these objectives through their negative impacts will generally be allocated a poor rating under Candriam's ESG rating system. Consequently they are very likely to be excluded from the eligible investment universe.

Special requirements may be applied in agreement with the client.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti - corruption and anti - bribery matters.

— → *How have the indicators for adverse impacts on sustainability factors been taken into account?*

Consideration of the principal adverse impacts is an essential part of Candriam's approach to sustainable investment. The principal adverse impacts are considered throughout the ESG research and analysis process and by means of several methods.

For the analysis of companies, these methods include:

1. ESG ratings of companies: the ESG research and filtering methodology considers and evaluates the principal adverse impacts on sustainability from two distinct but related perspectives:

- the commercial activities of the company and their positive or adverse impact on the main sustainability challenges such as climate change and resource depletion;
- the company's interactions with its main stakeholders.

2. Negative filtering of companies, consisting of a normative exclusion and an exclusion of companies involved in controversial activities.

3. Engagement activities with the companies based on dialogue, helping to avoid or mitigate the adverse impacts. The ESG analysis framework and its results feed into our engagement policy and vice versa.

For the analysis of sovereign issuers, these methods include:

1. ESG ratings of countries: the ESG research and filtering methodology considers and evaluates the principal adverse impacts on sustainability from the perspective of four capitals of sustainable development:

- natural capital, evaluating how a country conserves and uses its natural resources in a sustainable way,
- human capital, measuring economic and creative productivity by evaluating levels of education and expertise, innovation, health, including sustainability issues,
- social capital, evaluating civil society and state institutions in each country, focusing on transparency and democracy, the effectiveness of government, corruption, inequality and population security,
- economic capital, evaluating a country's economic fundamentals in order to determine each government's capacity to finance and support sustainable development policies in the long term.

2. Negative filtering of countries with the following elements in particular: - on Candriam's list of highly oppressive regimes - States guilty of serious human rights violations.

The integration of the principal adverse impacts on sustainability factors is based on the materiality or likely materiality of each indicator for each specific industry/sector to which the company belongs. The integration of the principal adverse impacts on sustainability factors is also based on the specific materiality or likely materiality of each indicator for each country in order to ensure that a country's rating properly reflects the short, medium and long term problems, challenges and/or opportunities that matter for the future development of the country. This materiality depends on a number of elements including the type of information, the quality and scope of the data, applicability, relevance and geographical coverage.

— → *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

The investments in corporate issuers in the portfolio undergo a normative controversy analysis examining respect for international social, human, environmental and anti-corruption norms as defined in the UN Global Compact and the OECD Guidelines for Multinational Enterprises. The International Labour Organisation and the International Bill of Human Rights are among the many international references embedded in our normative analysis and in Candriam's ESG model.

The analysis seeks to exclude companies which have significantly and repeatedly breached one of these principles.

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



## **Does this financial product consider principal adverse impacts on sustainability factors?**

**X** Yes, at financial product level, the 'principal adverse impacts (PAIs) on sustainability factors are taken into account by one or more means, as described under PAI Level 1 in the document entitled “PAI Consideration at Product Level”:

- Monitoring: calculation and evaluation of the PAI indicators, including reporting at financial product level.

- Engagement (for financial products invested in companies): in order to avoid and/or mitigate the adverse impact on sustainability objectives, the financial product also considers adverse impacts in its interactions with the companies, through dialogue. Candriam prioritises its engagement activities based on an evaluation of the most significant and the most relevant ESG challenges faced by the sectors and the issuers, taking account of the financial and social impacts and of the impacts on the stakeholders. The degree of engagement with each company may consequently vary within the same product and is subject to Candriam's prioritising methodology.

- Exclusion: Candriam's negative filtering on companies or on countries seeks to avoid investments in harmful activities or practices and may result in exclusions related to the adverse impact of companies or issuers.

The specific principal negative impacts considered are subject to the availability of data and may change as the quality and availability of data improves.

More extensive information on the types of PAI considered can be found through the links provided at the end of this document.

No



### What investment strategy does this financial product follow?

The portfolio strategy as specified in the management contract is applied according to a formalised investment process and a defined risk framework. Adherence to these elements is subject to risk monitoring by Candriam.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

Regarding the environmental and social aspects of the investment strategy, Candriam's exclusive ESG analysis (which produces ESG ratings and scores) and a normative controversy evaluation (including the controversial activity exclusion policy) are applied, making it possible to define the investable universe for the financial product.

Furthermore, Candriam's ESG analysis, which includes an analysis of the issuer's activities and its interaction with its main stakeholders, is an integral part of the financial management of the portfolio, enabling the asset manager to identify the risks as well as opportunities around the serious challenges of sustainable development.

As the portfolio manager, Candriam has established a monitoring framework as described in the sustainability risk management policy. Monitoring of the risks associated with the investment strategy of the financial product seeks to ensure that the investments are aligned with and take account of environmental, social and governance indicators and the sustainability thresholds as explained above. In addition, the financial product's conformity with the investable universe is controlled through the use of rules implemented basically in the management system.

#### ● **What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

The investment strategy contains binding elements such as an exclusion policy comprising a normative filter as well as the exclusion of certain controversial activities as described in Candriam's Level 1 Company-Wide Exclusions Policy.

Candriam's Level 1 Company-Wide Exclusions Policy is aimed at harmful activities that in Candriam's opinion have a substantial negative impact and involve significant financial and sustainability risks. Exposure to these activities presents significant systemic and reputational risks for invested companies from economic, environmental and social points of view.

Consequently Candriam excludes activities linked to controversial weapons, tobacco and thermal coal from all the portfolios that it manages directly and encourages third parties to do likewise.

Candriam's Level 1 Company-Wide Exclusions Policy applies to all investments made by Candriam by way of long positions in direct lines on private sector and sovereign issuers and derivative products on individual issuers.

The full list of activities excluded by virtue of Candriam's Level 1 Company-Wide Exclusions Policy and their respective thresholds and exclusion criteria are available through the links provided at the end of this document (the policy entitled Candriam Level 1 Company-Wide Exclusions Policy).

In addition, the portfolio is constructed in order to achieve or to respect:

- the defined minimum proportion of investments which have environmental and social characteristics,
- the defined minimum proportion of sustainable investments.

- **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

There is no committed minimum rate to reduce the scope of the investments considered prior to the application of the investment strategy. However, the financial product is subject to an exclusion policy comprising a normative filter as well as the exclusion of certain controversial activities.

- **What is the policy to assess good governance practices of the investee companies?**

The company's governance is a core aspect of the stakeholder analysis performed by Candriam. It can be used to evaluate:

- 1) how a company interacts with and manages its stakeholders, and
- 2) how a company's board of directors discharges its governance and management functions regarding disclosure and transparency and regarding consideration of sustainability objectives.

In order to evaluate a company's governance practices specifically regarding the stability of the management structures, labour relations, staff remuneration and tax compliance as defined by the SFDR, Candriam's ESG analysis includes five key pillars of governance:

1. The strategic orientation, which evaluates the independence, expertise and composition of the board of directors and ensures that the board acts in the interests of all shareholders and other stakeholders and that it is able to act as an effective counterweight to management,
2. An audit committee and an evaluation of the independence of the auditors in order to avoid conflicts of interest,
3. Transparency around the remuneration of senior managers, enabling managers and the remuneration committee to be held to account by the shareholders, to align the interests of senior management with those of the shareholders, and to focus on long-term performance,
4. The share capital to ensure that all the shareholders have equal voting rights,
5. Financial conduct and transparency.

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.

## **What is the asset allocation planned for this financial product?**

The financial product seeks to invest at least 70% of its total net assets in investments which have environmental and social characteristics, of which a minimum of 15% will consist of sustainable investments. A maximum of 30% of the total net assets of the financial product may be allocated to other assets as defined below.

The percentage of sustainable investments may go up or down over time depending on the regulatory technical standards concerning the treatment of sovereign debt.

The investments which have environmental and social characteristics are investments which undergo Candriam's proprietary ESG analysis. In addition, these investments must respect Candriam's exclusion policy concerning controversial activities and the normative filter. The investments which have E/S characteristics must demonstrate good governance practices.

Sustainable investments are defined on the basis of Candriam's proprietary ESG analysis. An issuer which respects Candriam's exclusion filters is either eligible or not as a sustainable investment on the basis of its ESG rating.

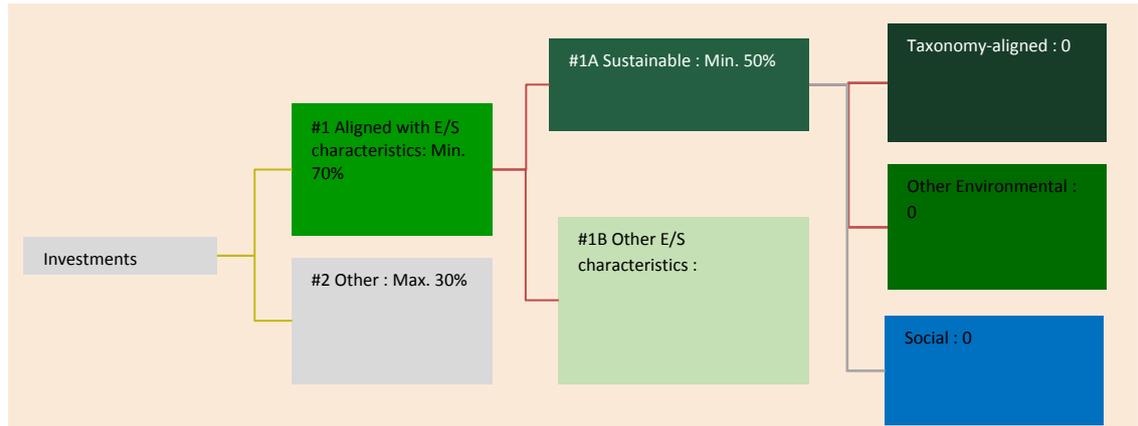
More extensive information on Candriam's ESG analysis is available through the links provided at the end of this document.



**Asset allocation** describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

The use of derivative products is not intended to achieve the environmental or social characteristics promoted by the financial product.



**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

The EU Taxonomy Regulation establishes six distinct but interconnected environmental objectives. These environmental objectives are placed at the heart of Candriam’s ESG research and analysis of issuers.

At the present time, however, only a small number of companies worldwide publish the necessary information for a rigorous evaluation of their alignment with the EU taxonomy.

As a result, the financial product does not commit to a minimum percentage of alignment with the EU taxonomy, so this percentage must be considered to be zero.

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy ?<sup>1</sup>**

Yes

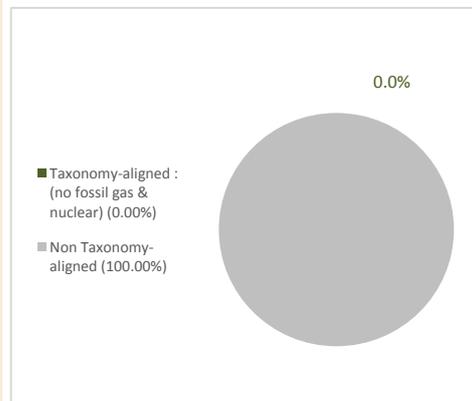
In fossil gas

In nuclear energy

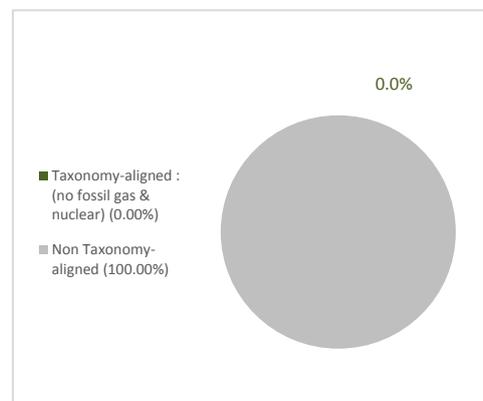
No

*The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy-alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy-alignment only in relation to the investments of the financial product other than sovereign bonds.*

1. Taxonomy alignment of investments including sovereign bonds\*



2. Taxonomy alignment of investments excluding sovereign bonds\*



This graph represents max. 100 % of the total investments.

\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

● **What is the minimum share of investments in transitional and enabling activities?**

No minimum proportion of investments in transitional and/or enabling activities has been fixed. However, Candriam's ESG research and analysis framework includes an evaluation of transitional and/or enabling activities and how they contribute to the sustainability objectives.

<sup>1</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objectives - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.



## What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

The financial product does not commit to a minimum proportion of sustainable investments whose environmental objective is not aligned with the EU taxonomy.



are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



## What is the minimum share of socially sustainable investments?

There is no hierarchy of environmental or social objectives and as a result, the strategy neither seeks nor commits to a specific minimum proportion of sustainable investments with a social objective.



## What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

Investments in the “Others” category may be held in the financial product up to a maximum of 30% of the total net assets.

Such investments may be:

- cash and cash equivalents: demand deposits, reverse repurchase transactions that are necessary in order to manage the liquidity of the financial product following cash contributions or withdrawals and/or resulting from the investment decision based on market conditions,

- other investments (including derivatives) which may be purchased for diversification purposes, which cannot undergo E/S filtering or for which E/S data is not available.



## Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

No specific index has been designated as a benchmark in order to evaluate alignment with E/S characteristics.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***
- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***
- ***How does the designated index differ from a relevant broad market index?***
- ***Where can the methodology used for the calculation of the designated index be found?***

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.



## Where can I find more product specific information online?

For more detailed information about the product, go to:

<https://www.candriam.com/en/private/sfdr/>

<https://www.candriam.com/en/professional/sfdr/>