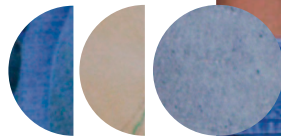


Investing for tangible change

60 seconds with the
fund manager

APRIL 2023

Marketing communication





**Céline
Deroux**



**Philippe
Dehoux**



**Vincent
Compiegne**



**Lucia
Meloni**

Céline Deroux, Senior Fund Manager, Philippe Dehoux, Head of Global Bonds, Vincent Compiegne, Deputy Head of ESG Investments, and Lucia Meloni, Lead ESG Analyst describe a new approach to fixed income impact.

What does Impact mean to you?

We define Impact investments are those made with the intention to generate measurable societal impact – environmental, social, or both – alongside a financial return. The impact measures should make a significant positive contribution to one or more of the 17 UN Sustainable Development Goals (SDGs), with transparent reporting.

De-carbonizing the global economy and reducing inequalities, two of the greatest challenges in industrial history, are woven through the SDGs. Asset managers have the power to be part of the solution, which is our impetus for developing a Bond Impact strategy.

Ideally, impact results and financial returns should be related. Our Bond Impact strategy has ambitious dual goals -- an impact aim to make a positive contribution to the UN SDGs and a financial aim to outperform its benchmark on an annual basis.

What sets this Bond Impact approach apart?

Both the project and issuer must be Sustainable. Candriam applies our proprietary Sustainability analysis to the issuer (parent company or nation), including norms-based and controversial activities reviews, analysis of the interests of all stakeholders, and the key Sustainability challenges faced by each issuer.

This impact strategy goes beyond green bonds. Sustainable Bonds, including green bonds, earmark proceeds for impact projects. We employ an in-depth analysis of each of the projects in which we invest. At each step, we assess the evolution of the project through clearly-defined KPIs.

Why invest in Bonds for Impact ?

Bond investors finance the activities of a company or country. As a responsible debt investor, we aim to ensure that financing is allocated to companies and nations to pursue Sustainable activities. The bond market is the largest asset class in the global financial market, providing a reliable source of capital for the

60 SECONDS
WITH THE FUND MANAGER



implementation of SDGs by governments and corporates. Relatively little new financing comes from equity issuance. As owners, equity investors aim to be good stewards of all the businesses in which the company is involved. Fixed income investors can choose to finance all, or only part, of the expansion of a corporate or government.

Sustainable bonds finance specific sustainable investments within a firm. More precisely, the proceeds are intended to generate positive, transparent, measurable environmental or social benefits, alongside long-term financial returns. There is a more forward-looking element in bond impact investing than in traditional bond investments.

How are the Sustainable and Green Bonds segments evolving, and which instruments do you include?

The Sustainable Bond asset class currently encompasses the well-known green bonds, as well as social bonds, sustainability bonds addressing both environmental and social goals, and the new category of sustainability-linked bonds. The first three are project bonds which contribute to the UN SDGs by financing climate, essential services, sustainable infrastructure, socio-economic advancement and empowerment efforts. The proceeds are earmarked for specific environmental or social assets with clearly-defined impact measures through key performance indicators. Our Bond Impact strategy includes a minimum of 75% of sustainable bonds funding specific sustainable projects.

Proceeds of sustainability-linked bonds are not linked to pre-specified projects but their coupons are tied to the achievement of pre-defined KPI targets. For example, a utilities issue might use CO₂/kwh as a KPI to measure its alignment with the Paris Agreement climate goals.

We can also invest in bonds of companies whose primary business contributes to the SDGs; for example, a health care company whose operations help expand access to health care.

How do you ensure sustainable bonds are making an impact?

We combine our long-standing ESG⁽¹⁾ analytical framework and our fixed income credit analysis methods to verify that each Impact investment demonstrates adequate solvency, ESG commitments, and best practices. Sustainable bonds are verified using our four-pillar Use of Proceeds Framework. First, if the instrument is a green bond, the company's environmental strategy must be aligned with the Paris Climate agreement. Second, the allocation of the proceeds to eligible projects and KPIs is carefully examined for positive contribution to the SDGs. Third, the transparency on the management of net proceeds is monitored (tracking the proceeds). Fourth, the reporting of the KPI and the evolution of the project must be verifiable at least annually. We believe this framework is one of the ways in which we are able to prevent 'greenwashing' by the issuers.

How do you measure – and report – Impact?

The strategy, which is compliant with Article 9 of the Sustainable Financial Disclosure Regulation (SFDR), reports two KPIs – to make a positive contribution to the UN SDGs, and for a minimum of 75% of the portfolio to be invested in sustainable bonds.

(1) Environmental, Social & Governance.

Why Candriam?

The strategy aims to combine long-term financial return with sustainable impact through the bond markets. With 25 years of experience in ESG and long-standing expertise in Fixed Income, Candriam has detailed and time-tested frameworks for sustainable analysis of corporate and sovereign bonds. ESG risks and opportunities have long been part of our credit analysis across our fixed income range money markets to high yield and emerging debt. Our approach is Global, allowing

us an access to the full range of investments, public as well as private companies, and from developed to emerging markets.

Make a Double Impact!

Each year Candriam dedicates a portion of the net management fees of our responsible range and thematic funds to the financing of social impact initiatives, coordinated through the Candriam Institute for Sustainable Development.

The main risks of the strategy are:

- Risk of capital loss
- ESG investment risk
- Equity risk
- Interest rate risk
- Credit risk
- Risk on Cocos
- Currency risk
- Liquidity risk
- Derivative risk
- Counterparty risk
- Emerging market risk
- External factors risk

ESG Investment Risk: The non-financial objectives presented in this document are based upon the realization of assumptions made by Candriam. These assumptions are made according to Candriam's ESG rating models, the implementation of which necessitates access to various quantitative as well as qualitative data, depending on the sector and the exact activities of a given company. The availability, the quality and the reliability of these data can vary, and therefore can affect Candriam's ESG ratings. For more information on ESG investment risk, please refer to the Transparency Codes, or the prospectus if a fund.



This marketing communication is provided for information purposes only, it does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval. Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV") of the funds. This information is available either in English or in local languages for each country where the fund's marketing is approved.