CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Improve the ESG profile of your High-Yield investments

60 seconds with the fund manager

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Marketing communication

Thomas Joret

Vincent Compiègne

Jean-Claude Tamvakis

Nicolas Jullien

60 SECONDS WITH THE FUND MANAGER

For the portfolio management team in charge of the Global High Yield strategy, made up of Thomas Joret, Senior High Yield Fund Manager, Jean-Claude Tamvakis, Senior Fund Manager, Senior Credit Analyst High Yield, and Nicolas Jullien, CFA, Head of High Yield & Credit Arbitrage, combining their 20 years' expertise in High-Yield bond investment with ESG (Environmental, Social & Governance) analysis, represented by Vincent Compiègne, Deputy Global Head of ESG Investments & Research, has the potential to outperform significantly over the long term.

Why did you launch a Sustainable high-yield bond investment strategy?

As we see it, there is growing awareness of certain Environmental, Social and Governance (ESG) issues in the investor community. Some members of this community are now turning their back on purely financial goals to focus on the impact of ESG factors.

In our investment universe, i.e. the high-yield market, we find that Governance plays a major role in the assessment of issuers. Governance has even been a decisive component of our investment process since we launched our first high-yield strategy in 1999. Our aim in launching this Sustainable strategy was to go one step farther by incorporating environmental and social factors in our investment process.

Candriam has been a pioneer in sustainable and high yield investing for more than 20 years.

Putting the two teams together allows us to integrate ESG factors in each step of the investment process.

What is the approach of your ESG strategy?

Our approach[1] begins with on comprehensive fundamental and financial research on each issuer, combined with an active asset management style and strong convictions, focused on taking advantage of inefficiencies on the high-yield market. Our bond selection process draws on our analysis of the fundamentals and prioritises higher-rated securities (BB B). We look for high-quality companies which demonstrate robust fundamentals. We highlight resilient sectors, niche activities and companies which are price influencers. We exclude financials because in our view they are too sensitive to political and regulatory issues, and instead prefer bonds issued by corporates, with valuations relying on operational elements.

We combine our high-yield philosophy with an ESG analysis[2] including exclusively those issuers considered as Best-in-Class. That means, for any given sector, we rule out 30% of the highest-risk names as determined by our ESG analysis. We believe in active engagement and responsibility, and we maintain an ongoing and ever-expanding dialogue[3] with these companies.

(1) We only consider sectors that are not excluded by the Candriam Exclusion Policy. This document may be viewed at: https://www.candriam.fr/fr/professional/market-insights/sri-publications/.
(2) The ESG analysis described above for bonds is applied to at least 90% of the investment strategy, excluding deposits, cash and index derivatives.

How does ESG analysis work?

New names for macro and micro ? Our in-house ESG analysis team establishes ESG scores using a proprietary method that determines the quality of issuers from an ESG standpoint. To define our investment universe, each issuer is assessed in accord- ance with a normative analysis, excluding corporates that do not observe the 10 principles of the United Nations Global Compact, and also excluding those conducting controversial activities such as weapons, tobacco, thermal coal and other activities that we consider non-sustainable. Our proprietary two-pronged approach encompasses:

• a business activities analysis: this approach considers a company's ability to manage global sustainability trends such as climate change, demographic trends and resource depletion, and adapt them to its business model.

• a stakeholder analysis identifying the most advanced companies, capable of offering solutions to major Sustainable development challenges (climate change, depletion of resources, demographic trends, etc.).

The ESG score is rooted in the company's capacity for creating value by incorporating Sustainability ESG factors in the managerial, financial and operational processes.

Our goal is to invest in issuers generating the greatest positive impact on society, i.e. companies that adopt ESG best practices and contribute the most to the economy, the environment and society.

Next, we factor non-financial criteria into our credit analysis, for example using our internal macro ESG analysis to assess the firm's exposure to the main Sustainability challenges and measure how well it incorporates shareholder interests in its long-term strategy. The way it addresses shareholder interests directly influences our recommendation process and thus our evaluation of its bond holdings compared to those of its peers.

Why choose Sustainable bonds?

The rationale behind Sustainable investment is simple, yet powerful: a company's activities are sources of risks as well as opportunities. However, they cannot be fully evaluated solely through the lens of traditional financial data. That is where ESG analysis comes into play.

Bonds have an asymmetrical risk-reward profile, with limited upside potential, but considerable downside risk, due in large part to downgrade risk. It is important to examine ESG issues to clearly understand the entire range of risks which might affect the ability of the issuer to honour its debt. Poor ESG practices can lead to operational disruptions, inefficiencies, legal disputes and tarnished reputations, which in turn can impact the issuer's ability to repay its debts.

Who is the right type of investor for this strategy?

A growing number of investors are placing ESG considerations at the top of their list of priorities in making investment decisions.

ESG strategies offers investors a different approach to investment. In addition to purely financial criteria, ESG strategies provide additional criteria that investors can take into consideration when assessing a company's Responsibility and Sustainability. For institutional investors looking for a Sustainable and Responsible way to invest in the long term, high-yield ESG strategies can be a good way to go.

This strategy appeals to investors that have applied ESG criteria to their equity portfolios and want to do the same with their bond portfolios. It is especially fitting for investors operating in jurisdictions where they are required to report on the impact of their Sustainable investment. Such an obligation already exists in some countries and is sure to be on the rise because of the Paris Agreement on climate change. Investors are under growing pressure from civil society to disclose and reduce their carbon impact.

(3) For more details on our dialogue and voting policy, see our reference documents on our website.

Can this strategy outperform high- yield bond strategies?

Performance is also a very important consideration for investors. Candriam's high-yield strategy already includes alpha in our ESG criteria selection strategy and our analysis of issuer fundamentals.

Our objective is to capture yield on the markets while improving the portfolio's ESG profile. The strategy's performance depends in large part on market behaviour, in the same way more traditional strategies do. For example, at any given time, the mining sector has the potential to massively outperform other sectors. Our strategy, which excludes many mining companies, is thus capable of underperforming. That said, with time we think the impact of good governance and corporate awareness of the impact their activities generate on society will see them outperform in the end.

The main risks of the strategy are:

- **Risk of capital loss**
- **ESG Investment Risk**
- **Equity risk**
- **Interest rate risk**
- **Credit risk**
- **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.