

'Do Not Significantly Harm' consideration

Within Candriam's
ESG analysis
under Sustainable
Finance Disclosure
Regulation (SFDR)



DECEMBER 2022

Marketing communication

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Context.

The principle of ‘do no significant harm’ (DNSH) under European Union’s Sustainable Finance Disclosure Regulation (SFDR) is linked to the consideration of “principal adverse impacts” and alignment of the investments with the so-called ‘minimum safeguards’.

“Principle adverse impacts” (PAIs) are defined as negative, material or likely to be material effects on sustainability factors (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.

There are 18 mandatory Principal Adverse Impacts (PAI) set out in SFDR, including indicators relative to greenhouse gas emissions, energy performance, biodiversity, water and waste, as well as social and governance indicators. Most of the PAIs are related to corporate issuers, some to sovereigns. Furthermore, there are 46 optional PAIs pertaining also to sustainability factors.

‘Minimum safeguards’ refer to the respect of 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.

This document aims to set out how Candriam integrates the DNSH principle within its proprietary ESG research and analysis, provided that reliable, coherent and sufficient data are available on the companies and countries in which the investments are made.

Consideration of PAIs.

The consideration of PAIs is central to our sustainable investment approach. PAIs are considered at different steps of our ESG research and analysis process and through a wide range of methods, from ESG rating to negative screening and stewardship activities.

Candriam’s ESG Investments & Research Team has developed a holistic ESG research methodology and process for both corporate and sovereign issuers. Issuers are analysed from environmental, social and governance perspectives, leading to ESG ratings and scores that consider directly or indirectly the PAIs of these issuers.

There are three approaches through which Candriam considers PAIs in its ESG research and analysis:

- Proprietary ESG analysis / ESG rating
- Negative screening
- Stewardship (engagement and voting)

Please find below an overview of the means by which PAIs are considered in the case of investments in corporate issuers:

CANDRIAM'S CORPORATE SUSTAINABILITY FRAMEWORK

	Main sectors concerned ¹	Business activities					Stakeholder Management					Controversial activities	Norms-based	Engagement & Proxy Voting	
		Climate Change	Res-source Depletion	Demo-graphic Shifts	Health & Wellness	Digitali-zation	Environ-ment	Society	Employ-ees	suppliers	Clients				Investors
Indicators applicable to investments in investee companies															
Climate and other environment-related indicators															
PAI 1. GHG emissions	Utilities, Mining, Energy, Construction	X ²					X								X
PAI 2. Carbon footprint	Utilities, Mining, Energy, Construction	X ²					X								X
PAI 3. GHG intensity of investee companies	Utilities, Mining, Energy, Construction	X ²					X						X ³		X
PAI 4. Exposure to companies active in the fossil fuel sector	Utilities, Mining, Energy, Transportation	X	X				X						X		X
PAI 5. Share of non renewable energy consumption and production	Utilities, Energy	X	X				X						X ³		X
PAI 6. Energy consumption intensity per high impact climate sector	Utilities, Mining, Energy	X	X				X								X
PAI 7. Activities negatively affecting biodiversity sensitive areas	Utilities, Mining, Energy		X				X							X ³	X
PAI 8. Emissions to water	Utilities, Mining, Energy		X				X							X ³	X
PAI 9. Hazardous waste and radioactive waste ratio	Utilities, Mining, Energy		X				X							X ³	X
Social and employee, respect for human rights, anti-corruption and anti-bribery matters															
PAI 10. Violations of UN GC principles and OECD Guidelines for Multinational Enterprises	All											X		X	X
PAI 11. Lack of processes and compliance mechanisms to monitor compliance with UN GC principles and OECD Guidelines for Multi-national Enterprises	All											X			X
PAI 12. Unadjusted gender pay gap	All								X			X			X
PAI 13. Board gender diversity	All								X			X			X
PAI 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Electrical Equipment, Machinery, Aerospace & Defense												X		X

CANDRIAM'S CORPORATE SUSTAINABILITY FRAMEWORK

	Main sectors concerned ¹	Business activities					Stakeholder Management					Controversial activities	Norms-based	Engagement & Proxy Voting	
		Climate Change	Res-source Depletion	Demo-graphic Shifts	Health & Wellness	Digitali-zation	Environ-ment	Society	Employ-ees	suppliers	Clients				Investors
Optionnal Indicators applicable to investments in investee companies															
Climate and other environment-related indicators															
PAI 2. Emissions of air pollutants	Utilities, Mining, Energy	X			X		X								X
PAI 4. Investments in companies without carbon emission reduction initiatives	Utilities, Mining, Energy, Construction	X			X		X								X
Social and employee, respect for human rights, anti-corruption and anti-bribery matters															
PAI 4. LAck of a supplier code of conduct	Retailing, Energy, Mining, Paper & Forest								X		X		X ³	X	
PAI 5. Lack of grievance/complains handling mechanism related to employee matters	Retailing, Energy, Mining, Paper & Forest							X			X		X ³	X	
PAI 6. Insufficient whistleblower protection	Retailing, Energy, Mining, Paper & Forest										X			X	
PAI 8. Excessive CEO pay ration	Bank, Auto, Energy, Mining, Machinery										X			X	
PAI 9. Lack of a human rights policy	Auto, Energy, Mining, Food Beverage & Tobacco								X		X		X ³	X	
PAI 14. Number of identified cases of severe human rights issues and incidents	Real Estate, Construction, Mining, Energy, Retailing							X			X		X	X	
PAI 15. Lack of anti-corruption and anti-bribery policies	Real Estate, Construction, Mining, Energy, Machinery										X		X ³	X	

¹ Non exhaustive list of material sectors
² Indirectly integrated
³ Partially integrated

Please find below an overview of the means by which PAIs are considered in the case of investments in sovereign issuers:

CANDRIAM'S SOVEREIGN SUSTAINABILITY FRAMEWORK							
	Sustainable Development Criteria				In-depth Negative Screening		
	Natural Capital	Human Capital	Social Capital	Economic Capital	Candriam's Oppressive Regimes List	Financial Action Task Force Call for Action List	Freedom House's Freedom in the World Index
Indicators applicable to investments in sovereigns & supranationals							
Climate and other environment-related indicators							
PAI 15. GHG intensity	X						
Social and employee, respect for human rights, anti-corruption and anti-bribery matters							
PAI 16. Investee countries subject to social violations			X		X		X
Optional Indicators applicable to investments in sovereigns & supranationals							
Social and employee, respect for human rights, anti-corruption and anti-bribery matters							
18. Average income inequality score			X				
19. Average freedom of expression score			X		X		X
20. Average human rights performance			X		X		
21. Average corruption score			X				
22. Non-cooperative tax jurisdictions				X			
23. Average political stability score			X				
24. Average rule of law score			X		X		X

The integration of PAIs on sustainability factors is based on the relevance of each indicator, driven by materiality or likely materiality for each specific industry/sector to which the company belongs as well as data availability. For more information about the data sources and processing, please refer to our SFDR Website Disclosure.

Proprietary ESG analysis / ESG rating

Corporate issuers

Candriam integrates ESG information and analysis into investment decisions through business activities analysis and through stakeholder management analysis in order to examine the risks and opportunities that stem from the economic activities and operations of companies, and to assess their potential PAIs.

- **Business activities analysis:** a strategic assessment of how companies' activities address, are exposed to and impact the key sustainable challenges of climate change, resource depletion, health & wellness, digitalization and demographic evolution.
- **Stakeholder analysis:** an in-depth evaluation of how sustainably companies manage internal and external stakeholder issues including those involving the environment, society, employees, suppliers, customers and investors.

For more information, please refer to our SFDR Website Disclosure.

Particular cases

Some fund of fund products that are managed by Candriam and invest in external underlying funds do not apply Candriam's holistic ESG research methodology and process for both corporate and sovereign issuers and use other frameworks to integrate the DNSH principle within their investment process.

In such cases, the framework used by these products will be described in their respective due diligence processes and will soon be incorporated into this policy.

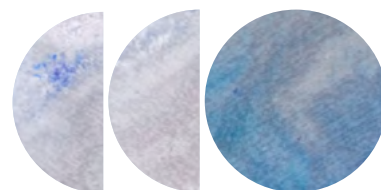
Sovereign issuers

On the sovereign side, Candriam's country 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 factors which we evaluate using our internally-defined Key Performance Indicators, or KPIs. This generates a dynamic capital-based analytical tree, which covers the sustainable development challenges and opportunities faced by each nation.

Please note that our country sustainability framework emphasizes Natural Capital by turning it into a multiplier for the other three forms of capital. Doing so, we create three environmentally efficient capitals that reflect the urgency of dealing with the environmental challenges that the world is facing.

For more information, please refer to our SFDR Website Disclosure.



Negative screening

Corporate issuers

Our negative screening includes a normative analysis and controversial activities exclusions.

Our company-wide controversial activities exclusions concern harmful activities that we believe present a negative profile from sustainability perspective, and consequently often also from a financial perspective. In fact, the downside of investing in these activities represents systemic and reputational risks which cannot be compensated by any financial considerations. Candriam excludes such activities from all directly-managed portfolios and encourages third parties to do the same.

These exclusions cover any involvement in the development, production, testing, maintenance, and sale of one or more of controversial weapons and deriving more than 10% of revenues from coal extraction or power generation from coal.

Such sectorial exclusions and strict revenue thresholds also allow us to set minimum standards and avoid exposure to activities we consider to be harmful to the environment and society.

Candriam's norms-based analysis determines whether a company complies with the 10 principles of the United Nations Global Compact in the areas of Human Rights, Labour Rights, Environment and Governance, regardless of the investment objective of the strategy. In line with our aim to invest in a way to not do any significant harm, the norms-based analysis and screen enable us to set robust environmental and social indicators and tolerance levels, against which exclusions or divestment would occur should they not be respected.

For more information, please refer to our SFDR Website Disclosure.

Sovereign issuers

With regards to sovereign issuers, we apply exclusions for:

- severe human rights violators (Candriam's Highly Oppressive Regimes List);
- state sponsors of terrorism (Financial Action Task Force's Call for Action List);
- states that are considered 'Not Free' (Freedom House's Freedom in the World Index).

Particular cases

Some fund of fund products that are managed by Candriam and invest in external underlying funds do not apply Candriam's negative screening methodology and process for both corporate and sovereign issuers and use other frameworks to integrate the DNSH principle within their investment process.

In such cases, the framework used by these products will be described in their respective due diligence processes and will soon be incorporated into this policy.

Stewardship (engagement & voting)

Candriam's engagement activities contribute to avoiding or reducing the extent of PAIs via dialogue and voting activities. Candriam's engagement policy is validated by our Global Strategic Committee and is reviewed annually.

We prioritise engagement based on the most material and relevant ESG challenges confronting industries and issuers by considering both the financial and societal/ stakeholder impact (double materiality principle).



For more information,
please refer to our [SFDR Website Disclosure](#).



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AUM at
30 June 2022



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