

# Investing in Small & Mid Caps in an Inflationary environment

Responsibility - Quality - Entrepreneurship

**Christian Solé– Deputy Head of European Equities / Portfolio Manager Small & Mid Caps**

Marketing document intended exclusively for Professional and Qualified Investors

April 2022



## A LOOK BACK



ROAD TO THE FUTURE



A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS



EXPERTISE



PERFORMANCE REVIEW



KEY HIGHLIGHTS

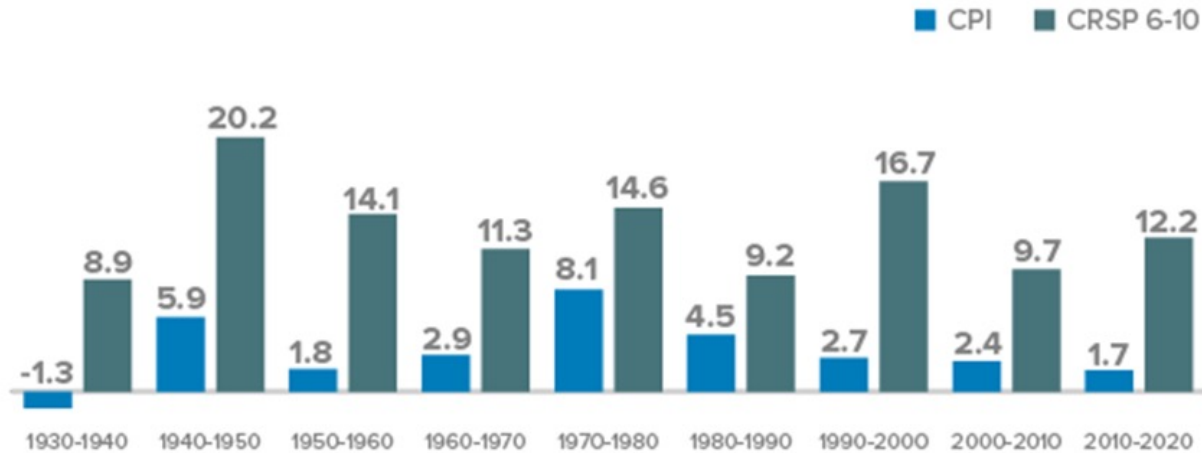


APPENDIX

# Small Caps & Inflation

## Small-Caps Have Beaten Inflation In Every Decade

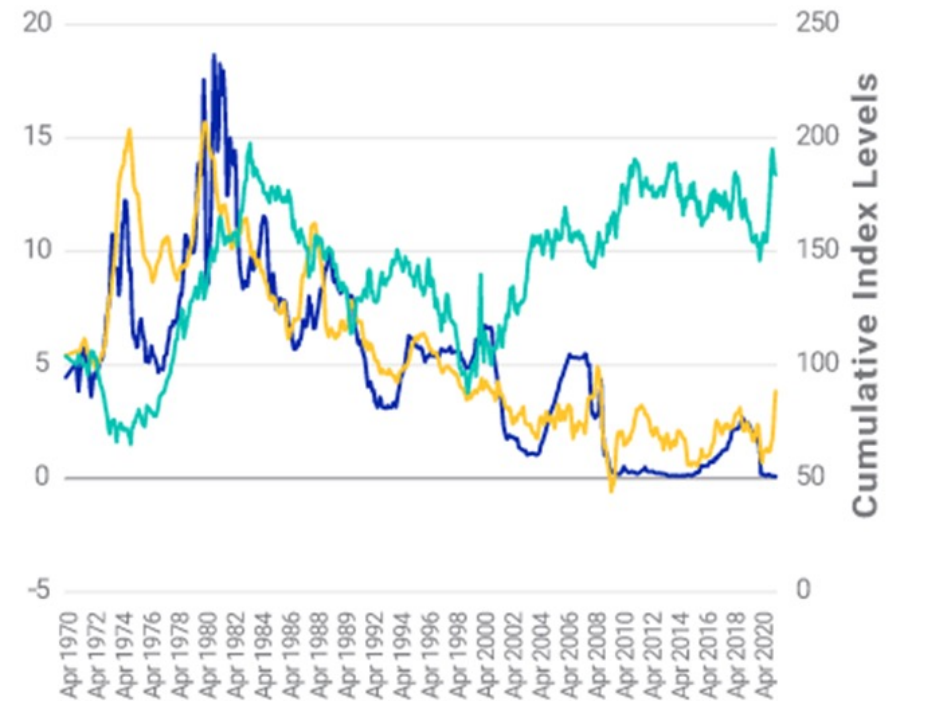
Average Annual Consumer Price Index (CPI) versus Average Annual CRSP 6-10 Index  
12/31/1930-12/31/2020 (%)



Past performance is no guarantee of future results.

Sources: Bureau of Labor Statistics (CPI) and CRSP

## Small-Size Factor vs. Inflation and Rates



● Rates (%) ● OECD CPI (%) ● Small-Size Factor (right axis)  
Source: MSCI

Period from Jan. 31, 1971, to June 30, 2021.

# A case study: the 70's

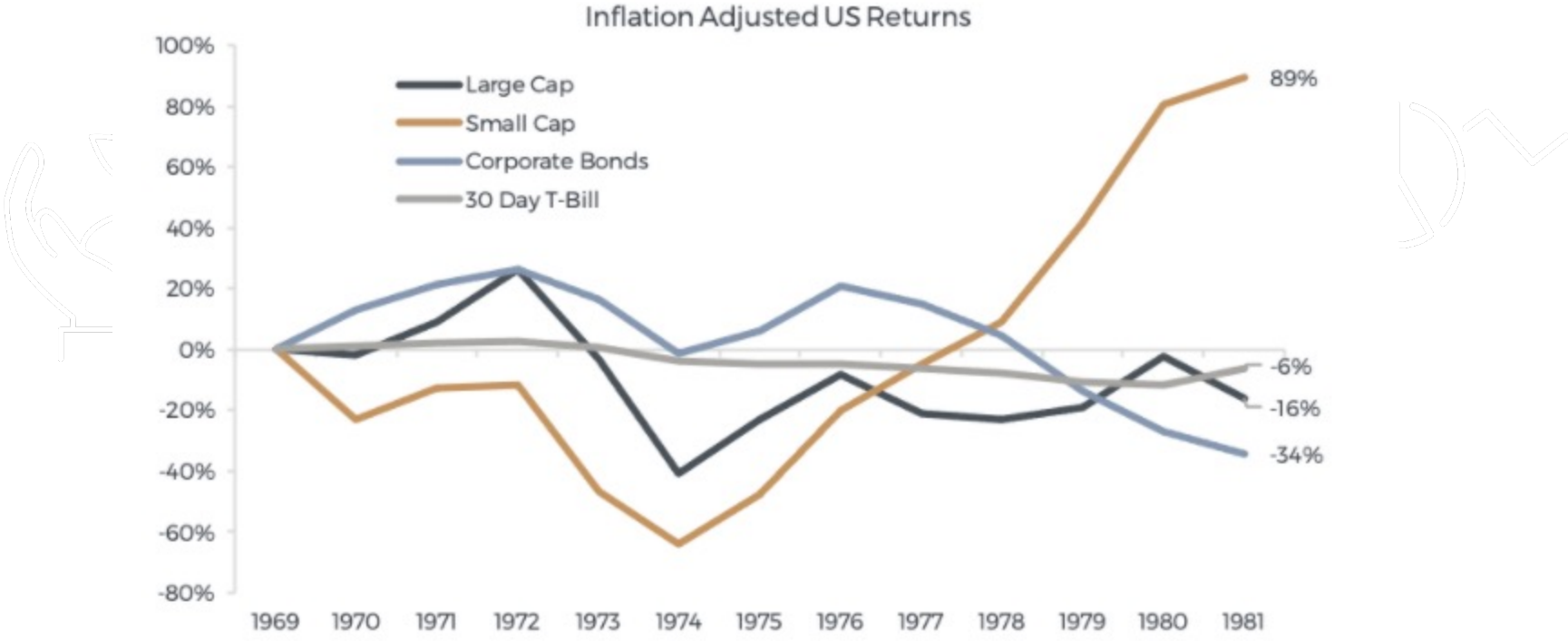


Figure 1. Source: Ibbotson & Harrington, SBBI (2020)



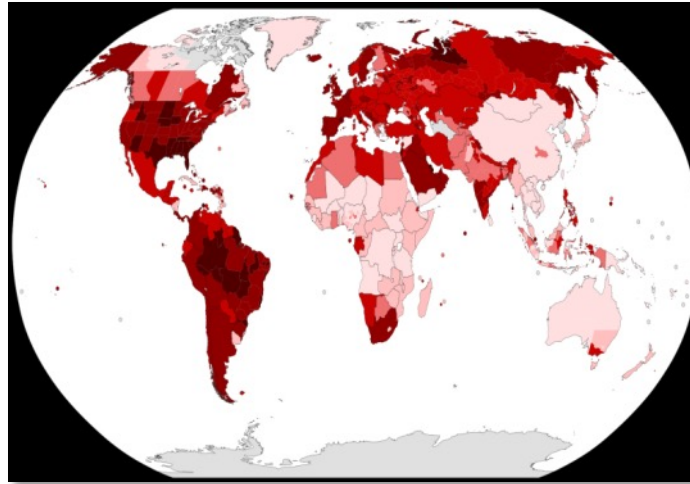
- > A LOOK BACK
- > **ROAD TO THE FUTURE**
- > A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS
- > EXPERTISE
- > PERFORMANCE REVIEW
- > KEY HIGHLIGHTS
- > APPENDIX

# Road to the future

## 3 Key Factors



Climate-related Regulations



COVID Impact



Growth visibility

# Road to the future

Climate-related Regulations

COVID Impact

Growth visibility



## EU Green Deal

55% net greenhouse gas emissions reduction target by 2030

The EU aims to:

- ▶ Become climate-neutral by 2050
- ▶ Protect human life, animals and plants, by cutting pollution
- ▶ Help companies become world leaders in clean products and technologies
- ▶ Help ensure a just and inclusive transition

# Road to the future

Climate-related Regulations

COVID Impact

Growth visibility



## EU Green Deal

55% net greenhouse gas emissions reduction target by 2030

### Industrial impacts:

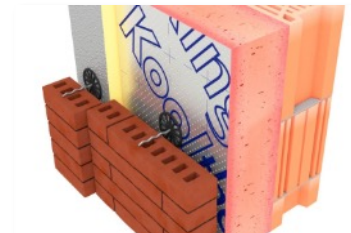
Renewables  
Energy Mix



Transport  
Automotive



Housing  
Insulation



Resource & Waste  
Management





# Road to the future

Climate-related Regulations

COVID Impact

Growth visibility

Durable Impact  
New Sanitary Needs

Working & Consumption habits  
Remote Economy



# Road to the future

Climate-related Regulations

COVID Impact

Growth visibility

## Record Deficits

## Highest Debt Levels (Debt/GDP)

Country	2019	2020	2021 <sup>e</sup>	2022 <sup>e</sup>
U.S	5.7%	<b>14.9%</b>	<b>10.8%</b>	6.9%
EMU	0.6%	<b>7.2%</b>	<b>7.7%</b>	3.4%
France	3.1%	<b>9.2%</b>	<b>8.9%</b>	4.7%
Germany	-1.5%	<b>4.3%</b>	<b>6.8%</b>	1.8%
Italy	1.6%	<b>9.5%</b>	<b>10.2%</b>	4.7%
Spain	2.9%	<b>11.0%</b>	<b>8.6%</b>	5.0%
UK	2.3%	<b>12.5%</b>	<b>11.9%</b>	5.6%
Japan	3.1%	<b>10.3%</b>	<b>9.0%</b>	3.9%

Country	2019	2020	2021 <sup>e</sup>	2022 <sup>e</sup>
U.S	85.2%	<b>104.5%</b>	<b>108.5%</b>	107.1%
EMU	83.7%	<b>97.5%</b>	<b>98.9%</b>	96.3%
France	97.6%	<b>115.1%</b>	<b>115.8%</b>	113.5%
Germany	59.2%	<b>69.1%</b>	<b>72.5%</b>	69.8%
Italy	134.6%	<b>155.8%</b>	<b>154.8%</b>	150.4%
Spain	95.5%	<b>119.9%</b>	<b>120.2%</b>	116.4%
UK	85.2%	<b>104.5%</b>	<b>108.5%</b>	107.1%
Japan	235.4%	<b>254.1%</b>	<b>256.9%</b>	252.3%

# Road to the future

Climate-related Regulations

COVID Impact

Growth visibility



Agility required to tackle supply chain challenges

# Road to the future

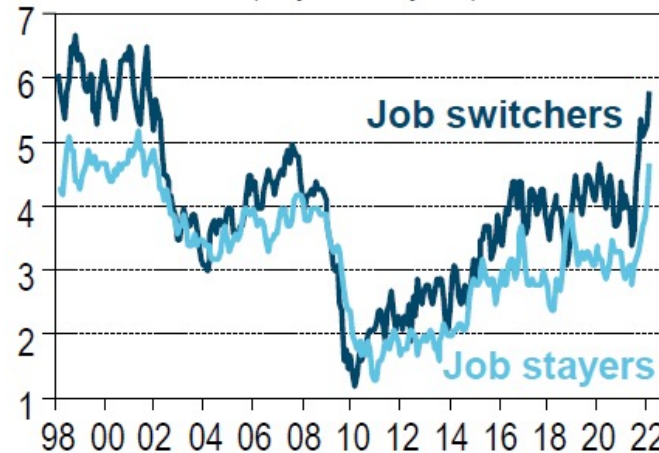
Climate-related Regulations

COVID Impact

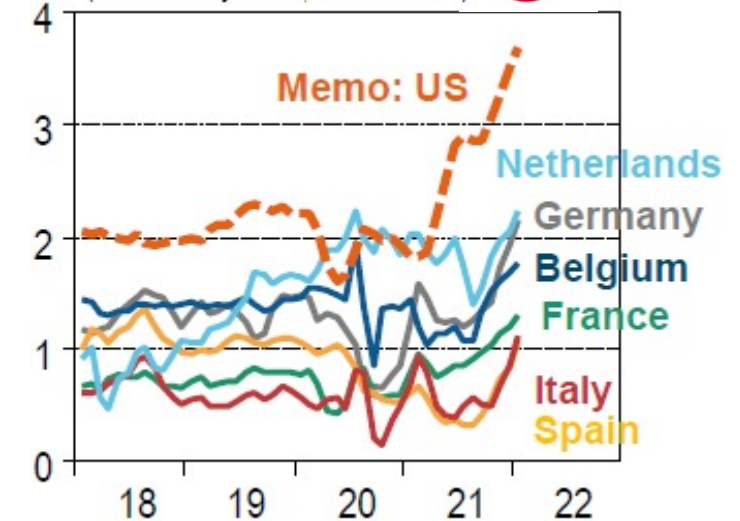
Growth visibility



Median wages  
(% year on year)



Core inflation  
(% over 2 years, annual rate)



## Pricing power in inflationary environment

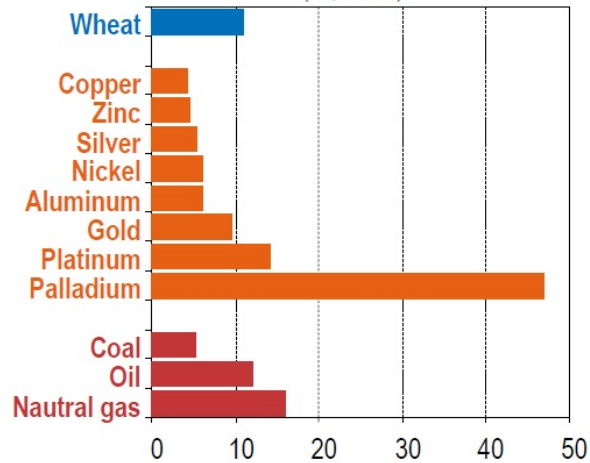
# Road to the future

Climate-related Regulations

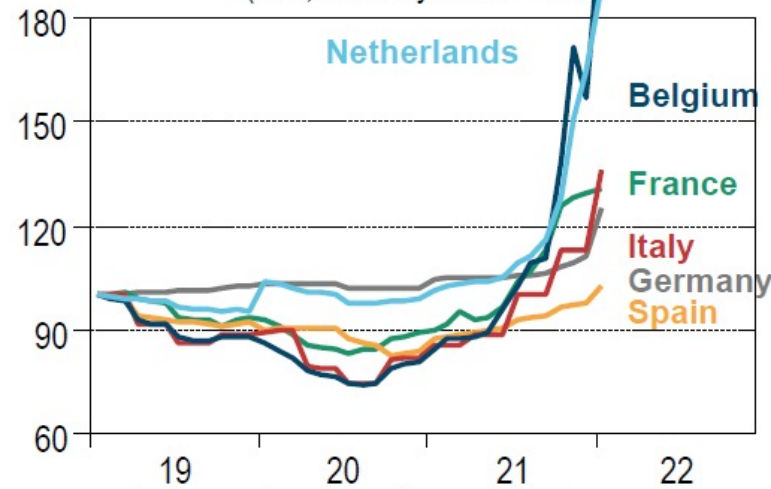
COVID Impact

Growth visibility

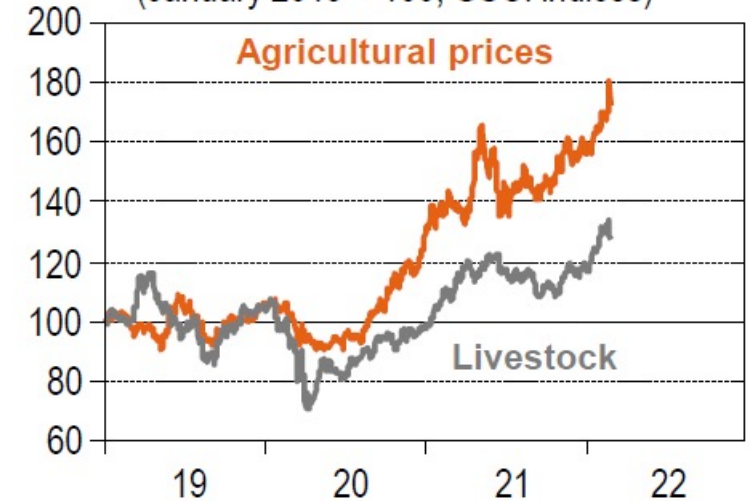
Russia's share in global commodity production (% , 2020)



Natural gas consumer price (CPI, January 2019 = 100)



Agricultural commodity prices (January 2019 = 100, GSCI indices)



Structural growth in uncertain time : geopolitical tensions, growth decelerating

# Conclusion

---

Climate-related Regulations

New Habits & Needs

Lower GDP Growth



Need for Disciplined, Extensive & Selective Analysis



- > A LOOK BACK
- > ROAD TO THE FUTURE
- > **A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS**
- > EXPERTISE
- > PERFORMANCE REVIEW
- > KEY HIGHLIGHTS
- > APPENDIX

# Quality of Management & Corporate Engagement

E S G

## Governance

- ▶ Independent Members in the Board
- ▶ Voting Rights/capital structure
- ▶ Balance of Powers (CEO, Chairman, Lead Director)
- ▶ Independent Members in the Compensation committee
- ▶ Long term incentives plans
- ▶ Expertise diversity at Management and Board

## Audit

- ▶ **Internal Audit Committee :**

Fully independent and reporting to the Board + expertise

- ▶ **External Audit :**

Avoid Conflict of interest (analyze auditors fees and auditors min rotation)

## Strengths

- ▶ Track Record of Current Management (M&A, guidance)
- ▶ Strategy
- ▶ Consistent Communication
- ▶ Shareholder Friendly
- ▶ Stability of Top Management and Head of Divisions (N-1)
- ▶ Management Continuity/succession planning

## Transparency

- ▶ **Transparency :** Minimum disclosure, Consistent and stable accounting
- ▶ **Legal files:** Frauds, Fines
- ▶ **Respect of minority interests** (Third Party transactions)

Indicative data which may change over time



# Quality of Management & Corporate Engagement

E S G

## Human Capital



- ▶ **Engagement Questionnaire**
- ▶ Workforce Organisation
- ▶ Employee Retention and Development

E S G

## Environment Policy



- ▶ Energy Transition
- ▶ Natural resources preservation
- ▶ Waste Management

**FINECO**

B A N K

**FINECO**  
Simplifying banking.

Banking, Trading and Investing at your fingertips



Fineco is an Italian financial service company that is specialized in online savings.

**Leader in Digitalisation**

Example of a portfolio security

# Quality of Management & Corporate Engagement



## Portfolio-specific engagement program

- ▶ Taking into account Small & Mid Caps-specific challenges
  - ▶ Favouring long-term dialogue & support rather than exclusion
  - ▶ Co-led by ESG & Equity Fundamental teams
- 
- ▶ **Vote in Annual General Meeting** (ad-hoc agenda items' analysis & dialogue when relevant)
  - ▶ Regular **One-on-One meetings** or calls with companies, addressing concerns identified by integrated analysis,
  - ▶ **Controversies monitoring**
  - ▶ **Questionnaire** mainly focussed on Human Capital
  - ▶ **Share of best-practices** as part of a long-term relationship

*Indicative data which may change over time*

# Quality of Management & Corporate Engagement



## Focus on Human Capital Management (HCM)

- ▶ Focus on:
  - ▶ workforce demographics & organisation,
  - ▶ recruitment,
  - ▶ training & development,
  - ▶ retention of talents,
  - ▶ diversity as well as ST/LT consequences of the current pandemic
- ▶ HCM process in **two steps**:
  - ▶ 1) gather and analyse key employee management data
  - ▶ 2) dialogue on HCM practices

- ▶ Launch of HCM engagement → early November 2020
- ▶ Pre-populated excel file sent to the issuers for them to complete
- ▶ As of January, 2022:
  - 65 companies reached (both in Investment universe & Ptf)
  - 45 responses

### January 2022 Ptf :

# Issuers approached	Weight PF as of January 2022	# Feedbacks as of January 2022
42 out of 48	89%	48 (68% Weight Ptf)

# Business Growth



Solutions provider for **optimal resource productivity** within two main business areas:  
Bottles Collection Solutions &  
Waste Sorting Solutions

## Market growth dynamics

- Revenue growth targets (2018-2023) >10%

## ESG risks and/or opportunities

- Climate change: a play on the **circular economy** with recycling and waste reduction solutions



Example of a portfolio security

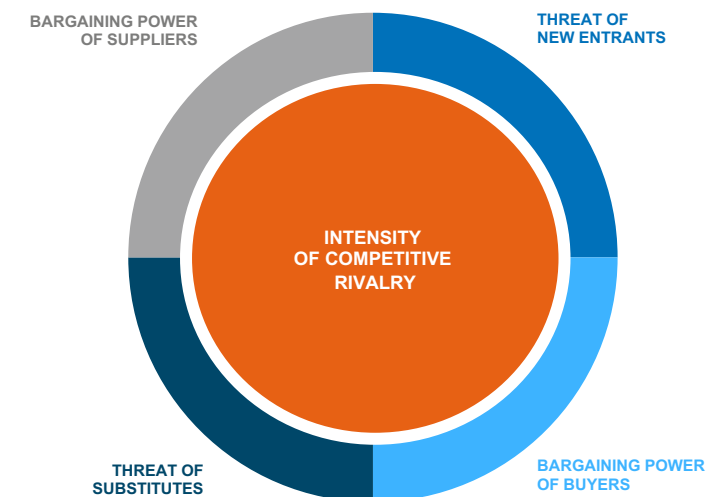
Sources: company data, Candriam estimates . Indicative data which may change over time

# Competitive Advantage

## Effect on 10% cost inflation on operating profits with pricing power

	HIGH PRICING POWER		LOW PRICING POWER	
	BASE CASE	INFLATION	BASE CASE	INFLATION
Revenue	100	110	100	105
Cost of goods sold	20	22	20	22
Gross profit	80	88	80	83
Gross margin	80%	80%	80%	79%
Operating expenses	60	66	60	66
Operating profit	20	22	20	17
Operating margin	20%	20%	20%	16%
Change in profit		10%		-15%

## Porter analysis





# Competitive Advantage



SIG is a leading system and solutions provider for aseptic packaging.

■ **Strong longer-term growth**  
Trends towards healthier food, increasing hygiene standards

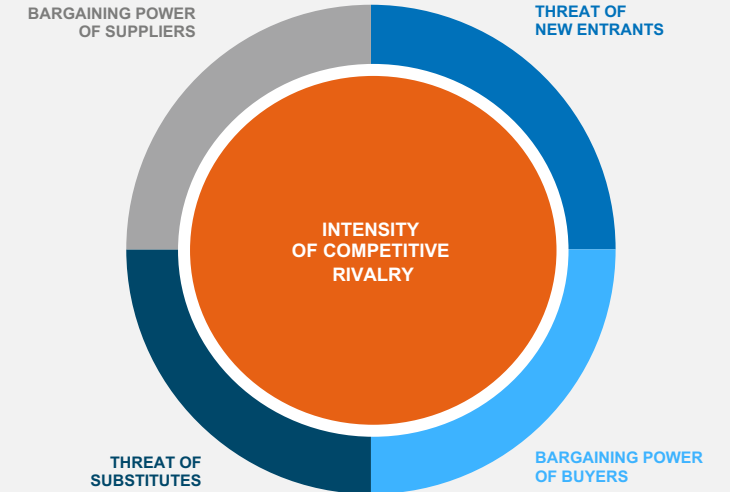
■ **Strong market position**  
Market share: 21%

■ **Innovation :**

- Strong R&D culture (Capex > 10% of sales revenues)
- Innovation partnerships with Market Leaders:



## Porter analysis



Example of a portfolio security

Sources: company data, Candriam estimates . Indicative data which may change over time

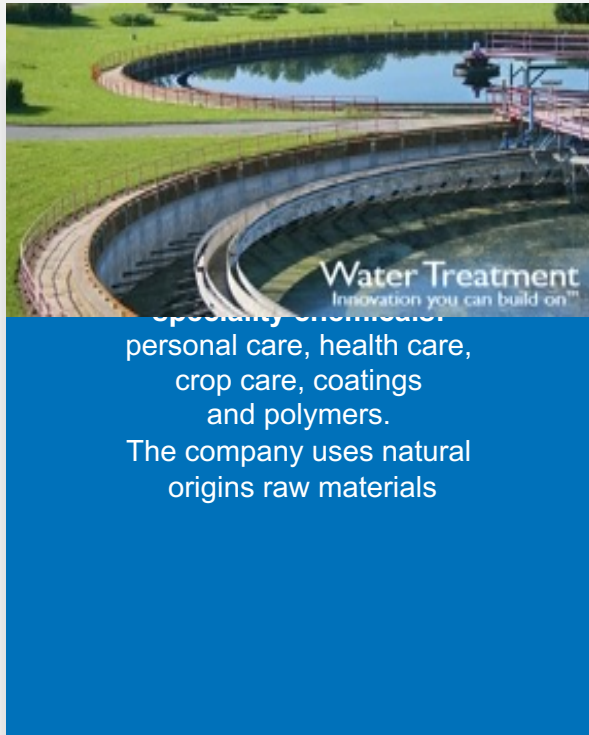
# Value Creation

## Effect on 10% input cost inflation on operating profits

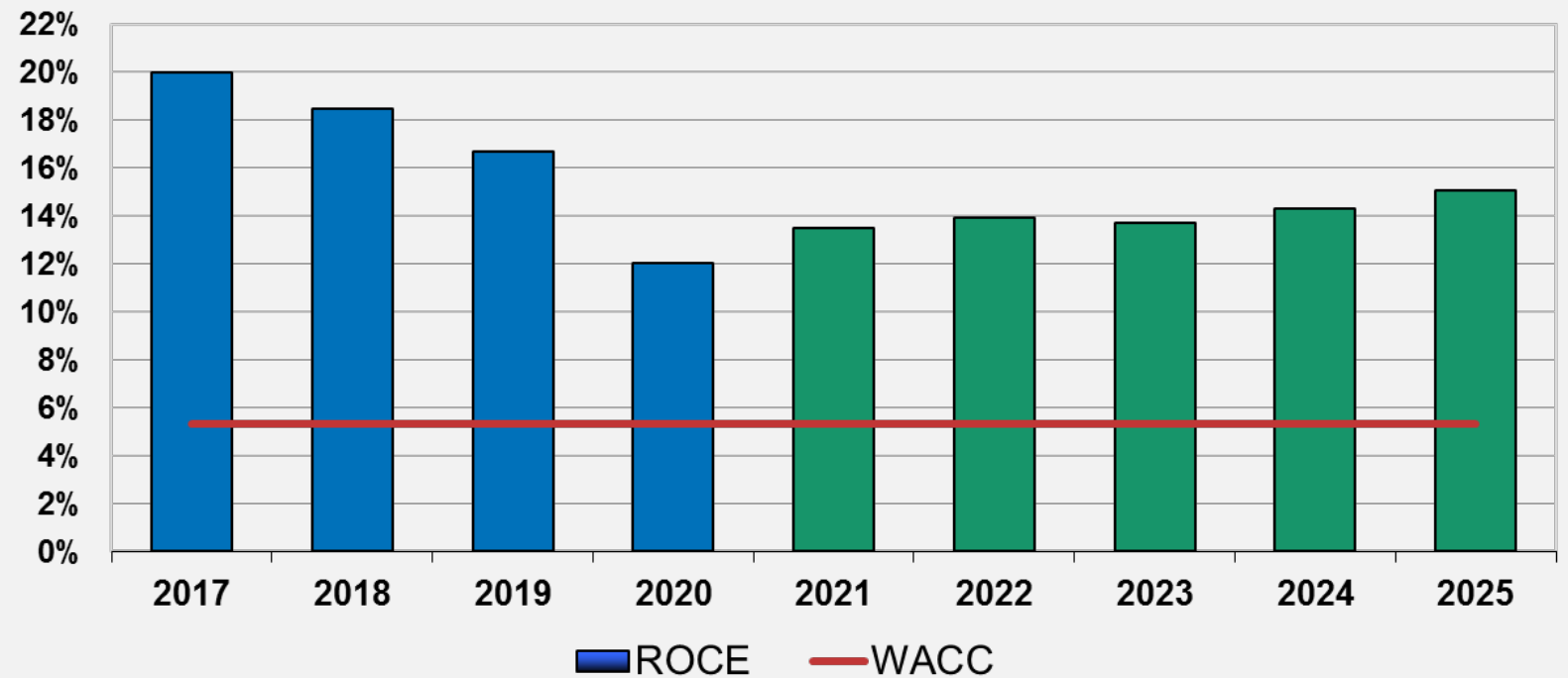
	HIGH GROSS MARGINS		LOW GROSS MARGINS	
	BASE CASE	INFLATION	BASE CASE	INFLATION
Revenue	100	100	100	100
Cost of goods sold	20	22	60	66
Gross profit	80	78	40	34
Gross margin	80%	78%	40%	34%
Operating expenses	60	60	20	20
Operating profit	20	18	20	14
Operating margin	20%	18%	20%	14%
Change in profit		-10%		-30%

# Value Creation

## CRODA



CRODA – ROCE vs WACC



Example of a portfolio security

Sources: company data, Candriam estimates . Indicative data which may change over time



# Financial Analysis

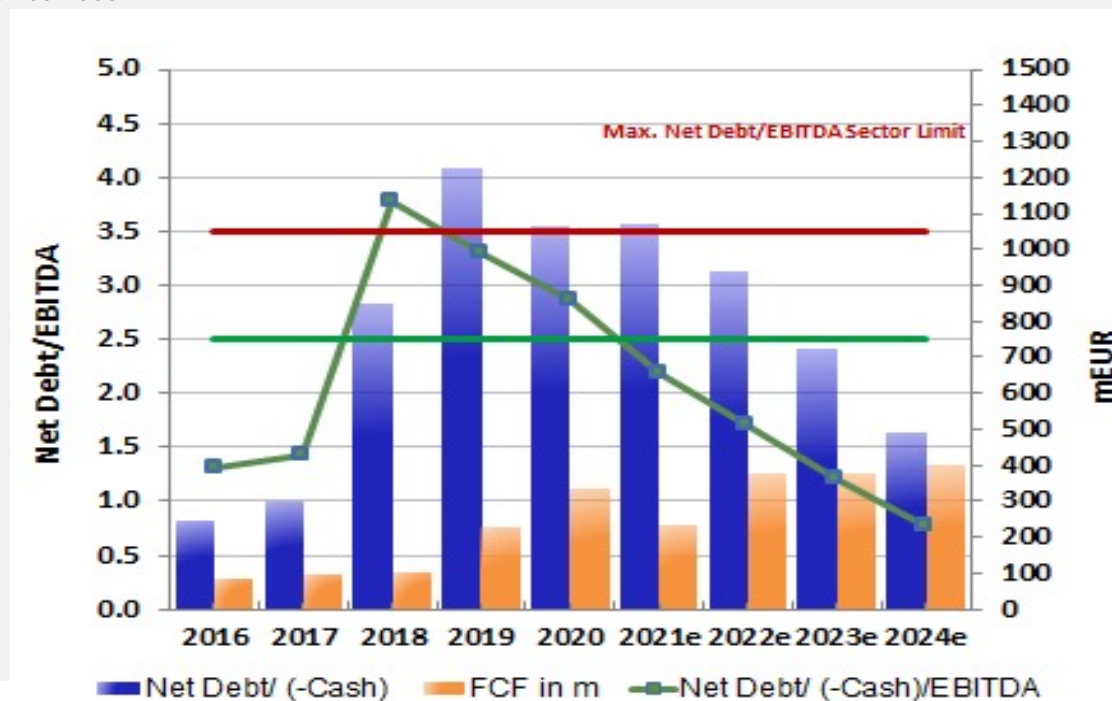


## Financial leverage



Global leader in the distribution of hearing aids solutions with a presence in 22 countries

- Amplifon has recorded an **average net debt/EBITDA level of 1.7x** from 2012-2016. We see low financial risks, as **cash flow generation is very strong** and accelerating
- Amplifon is expected to continue to use its **balance sheet strength for acquisition** purposes rather than share buybacks or special dividends
- **Increasing dividend** every year since 2009



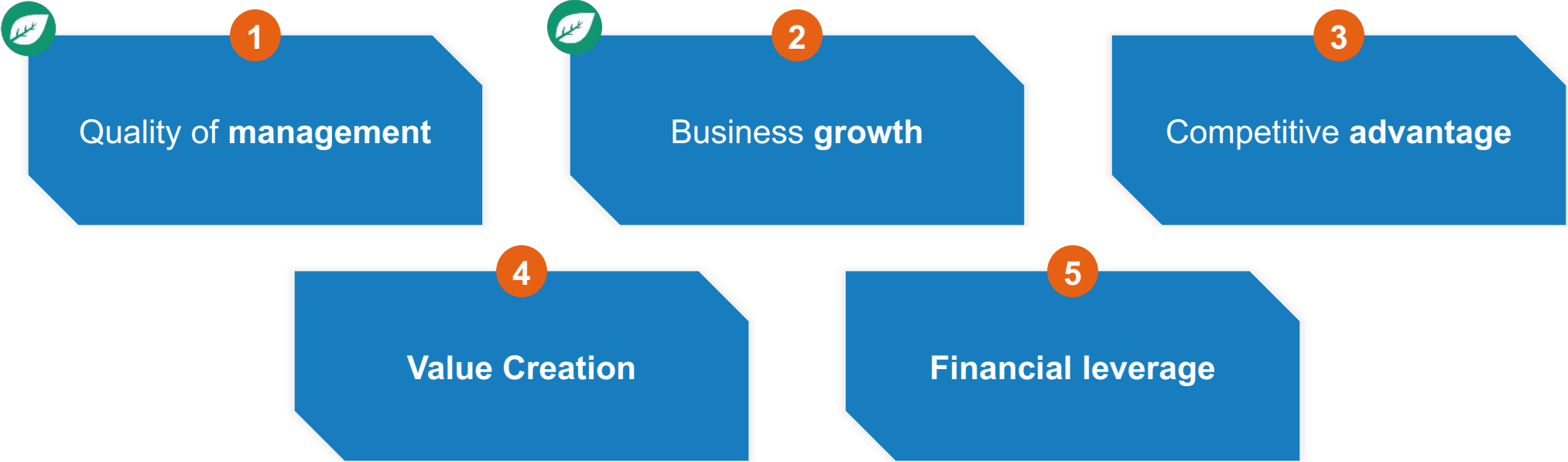
Example of a portfolio security

Sources: company data, Candriam estimates . Indicative data which may change over time


# Disciplined Analysis



## 5 Investment Criteria



## Valuation Models

 ESG criteria are taken into account

Indicative data which may change over time



- > A LOOK BACK
- > ROAD TO THE FUTURE
- > A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS
- > **EXPERTISE**
- > PERFORMANCE REVIEW
- > KEY HIGHLIGHTS
- > APPENDIX

# European Equity Expertise

## Experienced Team

14 fundamental investment specialists

More than 15 years of experience on average

Best Fund Manager 2017  
Pan-European Equity\*

**CITYWIRE**  
make better investments™

## Strategies (AUM : € 10.2 bn<sup>1</sup>)

**Sustainable Small & Mid Caps**

★★★★★<sup>(2)</sup>

**Sustainable Europe**

★★★★★

**Sustainable EMU**

★★★★★

**Innovation**

★★★★★

**Optimum Quality**

★★★★★

(1) - Source: Candriam – as of December, 2021

(2) - Morningstar: Ratings Overall - © 2020 Morningstar, Inc. All rights reserved. Some of the information contained in this document is the property of Morningstar and/or its information providers. It is given without any guarantee as to its accuracy, exhaustiveness or topicality. Its reproduction or redistribution is strictly forbidden. – as of end December 2021 – Belfius Equities Europe Small & Mid Caps, I share class

\* CityWire – Category Equity-Europe Income : « Best Fund Manager Awards, generating the highest risk-adjusted returns in a particular sector over the past three years to 31 December 2016”.

The quality of the award won by the UCI or the management company depends on the quality of the issuing institution and that the award does not guarantee the future results of the UCI or management company

For details on all specific awards please consult [www.candriam.com](http://www.candriam.com)

# Fundamental Europe Equity and ESG teams

## Fundamental Europe Equity



**Geoffroy Goenen**  
Head of Fundamental  
European Equity  
24 years of experience



**Christian Solé**  
Senior Fund Manager  
Head of Financials  
25 years of experience



**Sandrine Coujan**  
Senior Fund Manager  
Environment Specialist  
29 years of experience



**Laurent Milliat,**  
CFA  
Head of B2B  
18 years of experience



**Frédérique Bette**  
Head of Consumer  
23 years of experience



**Pierre Longueville**  
Head of Derivatives  
26 years of experience



**Nicolas Rutsaert,**  
CFA  
Materials, Industrials,  
Energy Specialist  
26 years of experience



**Antoine Hamoir, CFA**  
Health Care, Consumer  
Specialist  
17 years of experience



**Mariam El-Far**  
Financials Specialist  
3 years of experience



**Adrien Gassée**  
Technology, Media and  
Telecom Specialist  
4 years of experience



**Quentin de Streel**  
Industrials Specialist  
3 years of experience



**Quentin Duquesne**  
Industrials/ Consumer Specialist  
6 years of experience



**Sara Myard**  
Senior Client Portfolio  
Manager  
7 years of experience



**Corinne Mavungu**  
Client Portfolio Manager  
4 years experience

## ESG Team



**Wim VAN HYFTE,**  
PhD  
Head of ESG  
24 years experience



**Vincent Compiegne**  
Head of ESG research and  
automotive ESG Specialist  
14 years experience

### Managers



**Alix Chosson**  
Materials, Industrials and  
Energy ESG Specialist  
12 years experience



**Astrid Pierard**  
Utilities and Materials  
ESG Specialist  
1 year experience



**Jessica Carlier**  
Industrials ESG Specialist  
9 years experience



**Rémi Savage**  
Health Care ESG Specialist  
8 years experience



**Lucia Meloni**  
Financials ESG Specialist  
12 years experience



**Jeanne Gautier**  
Media, Telecom and  
Real estate - ESG  
Specialist  
3 years experience



**Flavia Nuccitelli**  
Tech and Commercial  
services ESG Specialist  
1 year experience



**Sophie Deleuze**  
Lead ESG Stewardship  
23 years experience



**Benjamin Chekroun**  
Stewardship ESG Specialist  
26 years experience



**Luc Riols**  
Stewardship ESG  
Specialist  
4 years experience



**Cemre Aksu**  
Stewardship ESG Specialist  
4 years of experience



**Kroum Sourov**  
Sovereign research ESG  
Specialist  
14 years experience



**Sairindri  
Christisabrina**  
Consumer ESG Specialist  
6 years experience



**Hien Nguyen**  
Emerging Markets ESG  
Specialist  
3 years of experience



**Camille Chollet**  
Environment Specialist  
1 year experience

### ESG Analysis



**Kenza  
Himmi**  
Client Portfolio  
Manager ESG  
8 years experience



**Elie  
El Kadi**  
Client Portfolio  
Manager ESG  
4 years experience



**Alexandre  
Tessier**  
Client Portfolio  
Manager ESG  
2 years experience

# Interactions with Candriam Global Specialists & Independent Consultants

## Global Thematic & Emerging Markets Specialists



**Rudi Van den Eynde**  
Senior Fund Manager  
*Biotechnology*  
34 years of experience



**Johan Van Der Biest**  
Senior Fund Manager  
*Technology*  
29 years of experience



**Jan Boudewijns**  
Senior Fund Manager  
*Emerging Markets*  
40 years of experience



**Servaas Michielssens, PhD, CFA**  
Senior *Biotechnology* analyst  
14 years of experience



**Felix Demaeght**  
*Technology* Analyst  
6 years of experience



**Philip Scrève**  
Senior Fund Manager  
*Emerging Markets*  
30 years of experience



**Malgorzata Kluba, PhD**  
Senior *Biotechnology* analyst  
15 years of experience



**Marie Lannoy**  
Fund Manager  
5 years of experience



**Lamine Saidi**  
Senior Fund Manager  
*Emerging Markets*  
19 years of experience



**Theany Bazet**  
Fund Manager  
15 years of experience



**Pierre Vaurice**  
*Medical Technology* Analyst  
18 years of experience



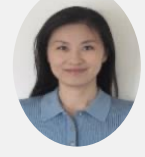
**Paulo Salazar**  
Senior Analyst  
*Emerging Markets*  
14 years of experience



**Allan Foll**  
Fund Manager  
10 years experience



**Jonas Desomer**  
Fund Manager  
12 years of experience



**Vanessa Zhao**  
Senior Equity Analyst  
*Emerging Markets*  
12 years experience



**Vincent Meuleman**  
Fund Manager  
3 years of experience



**David Czupryna**  
Lead Fund Manager  
20 years of experience



**Galina Besedina**  
Senior Equity Analyst  
*Emerging Markets*  
15 years experience

## External Consultants



## Independent network

**900,000+**

experts around the world, from  
former CEO's / CFO's to  
engineers or other specialists

*Approx. 200 calls/interactions per year*

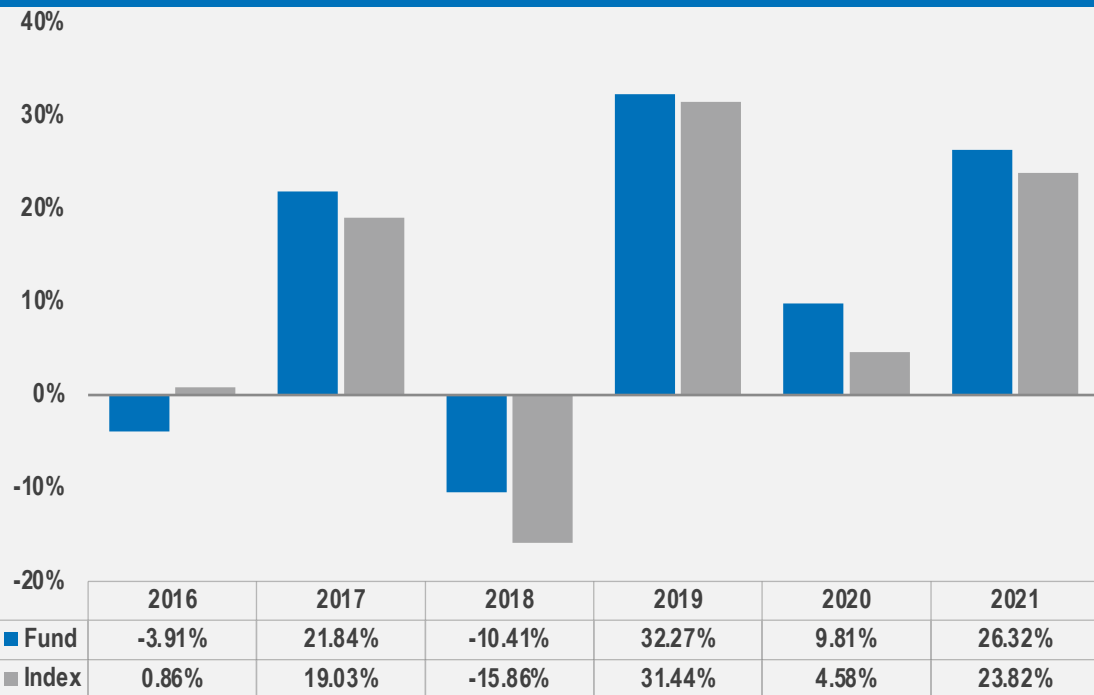
*Indicative data which may change over time*



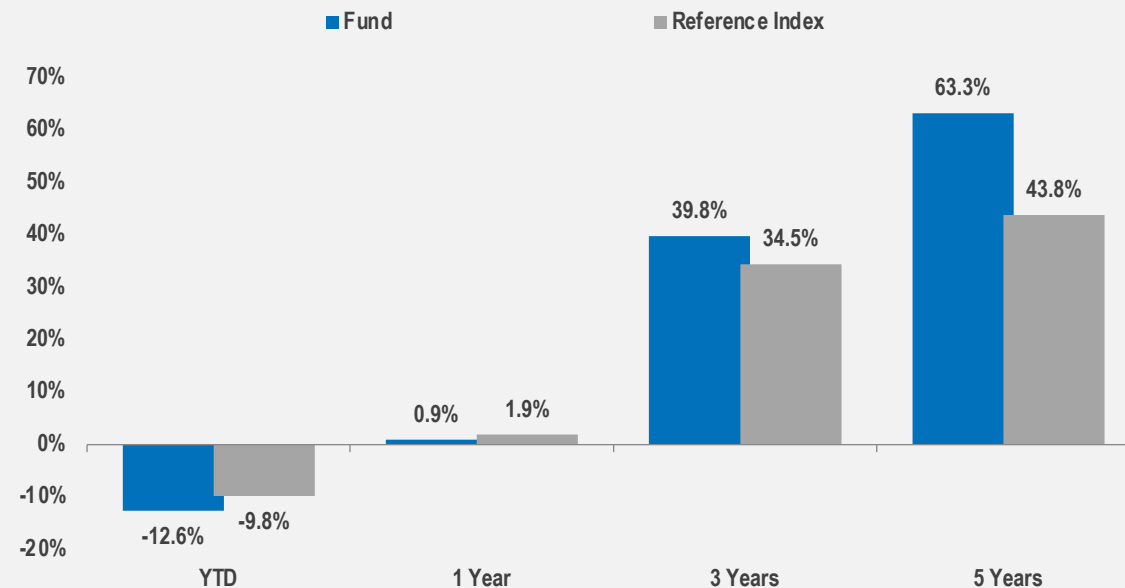
- > A LOOK BACK
- > ROAD TO THE FUTURE
- > A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS
- > EXPERTISE
- > **PERFORMANCE REVIEW**
- > KEY HIGHLIGHTS
- > APPENDIX

# Performance Review

## Historical performance



## Total Returns



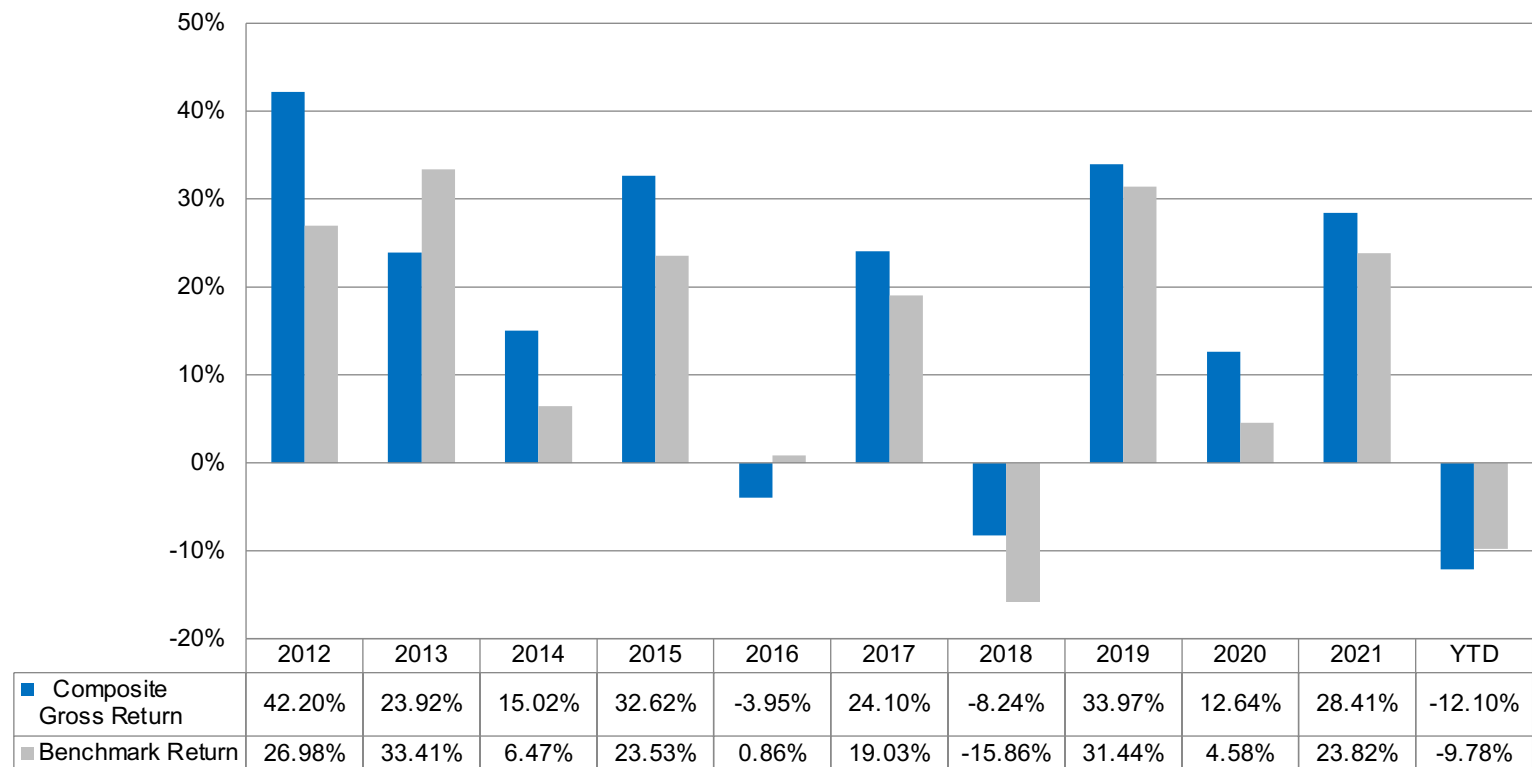
Monthly Data as of March 31<sup>st</sup> 2022. The fund is actively managed and the investment process implies referring to a benchmark index, the MSCI© Europe Small Caps (NR). Fund performance calculated net of fees / Past performance is no guarantee of future results and is not constant over time. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change..– Candriam Sustainable Equity Europe Small & Mid Caps Share class I

© 2022 MSCI Inc. All rights reserved

Source: Candriam



# Historical track of the strategy - GIPS Composite



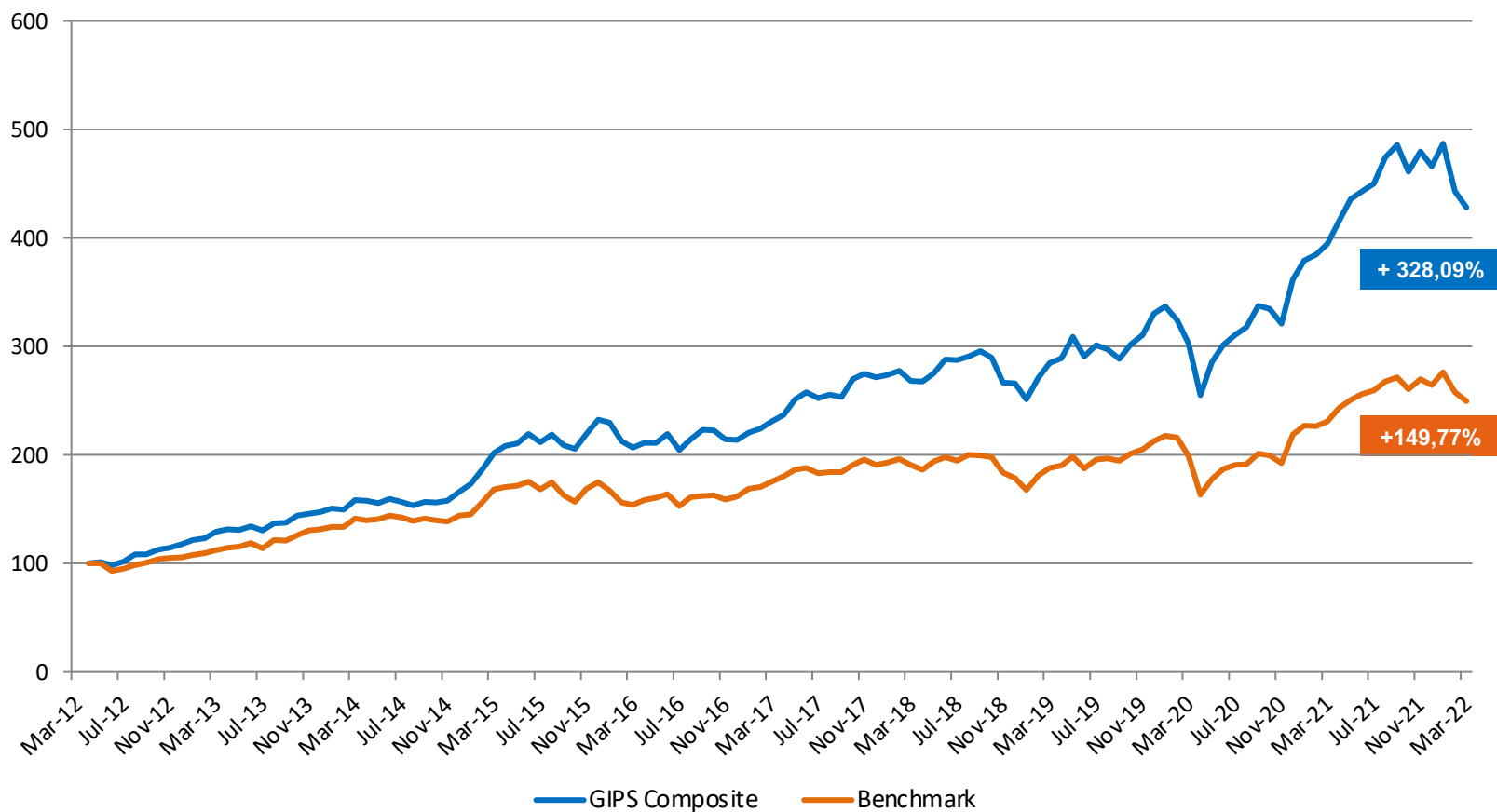
Risks		
	Composite Volatility	Benchmark Volatility
1 Year	15,66%	12,21%
3 Years	19,56%	18,42%

Morningstar Rating	
Overall	★★★★★
3 Years	★★★★
5 Years	★★★★★

Data as of March 31<sup>st</sup> 2022 of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change. Gross performances may be impacted by commissions, fees and other expenses incurred on the issue and redemption of units. The fund is actively managed and the investment process implies referring to a benchmark index. Reference Index: 100% MSCI Europe Small Caps (NR). - © 2022 MSCI Inc. All rights reserved

\*Morningstar category: EAA OE Europe Mid-Cap Equity. Data as of end of March 2022 for Candriam Sustainable Equity Europe Small & Mid Caps Share class I © 2022 Morningstar, Inc. All rights reserved. Some of the information contained in this document is the property of Morningstar and/or its information providers. It is given without any guarantee as to its accuracy, exhaustiveness or topicality. Its reproduction or redistribution is strictly forbidden

# Performance Review last 10 years – gross of fees



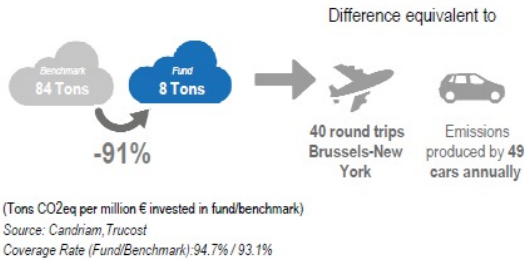
Absolute Performance			
	GIPS Composite	Benchmark Return	Excess Return
3 Years	48,16%	31,40%	16,76%
5 Years	80,80%	38,33%	42,47%
10 Years	328,09%	149,77%	178,32%

\* Source: Candriam as of March 31<sup>st</sup> 2022 - Past performance is no guarantee of future results and is not constant over time; Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change. The fund is actively managed and the investment process implies referring to a benchmark index, the MSCI® Small Caps Europe (NR).

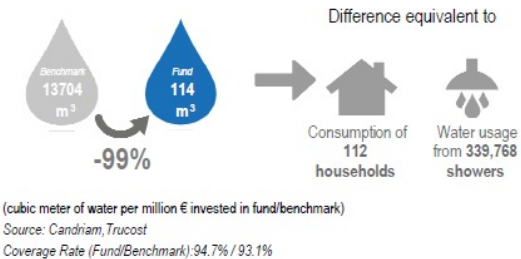
# ESG indicators

## COMPANY IMPACT INDICATORS

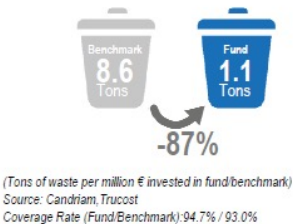
### CARBON FOOTPRINT



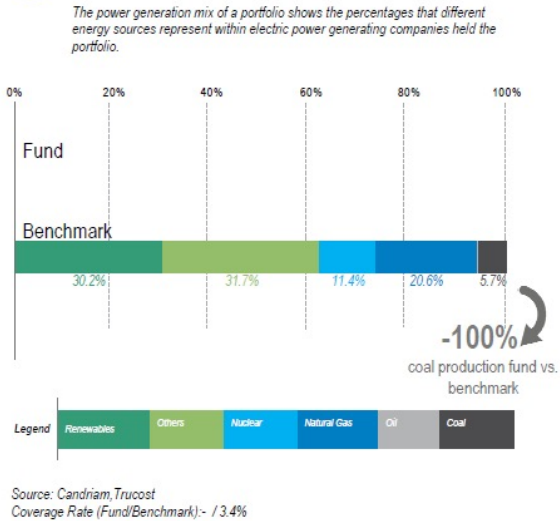
### WATER CONSUMPTION



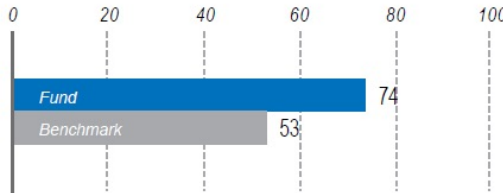
### WASTE GENERATION



### ENERGY MIX

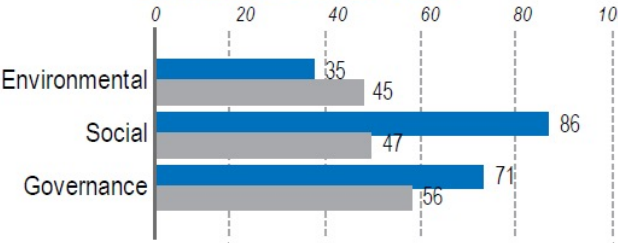


### OVERALL COMPANY ESG SCORE

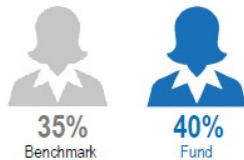


Score goes from 0 (worst) to 100 (best).  
 Coverage Rate (Fund/Benchmark): 96.2% / 87.8%

### COMPANY E-S-G SCORES

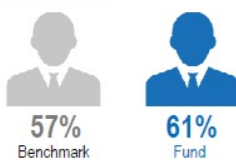


### PERCENTAGE OF WOMEN ON THE BOARD



Source: Candriam, MSCI  
 Coverage Rate (Fund/Benchmark): 87.9% / 85.1%

### PERCENTAGE OF INDEPENDENT BOARD MEMBERS



Source: Candriam, ISS-Oekom  
 Coverage Rate (Fund/Benchmark): 87.9% / 83.5%



- > A LOOK BACK
- > ROAD TO THE FUTURE
- > A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS
- > EXPERTISE
- > PERFORMANCE REVIEW
- > **KEY HIGHLIGHTS**
- > APPENDIX

# Candriam Sustainable Europe Small & Mid Caps

## PIONEER IN ESG



More than 20 years history in ESG, using proprietary sector-specific models and a unique best-in-class approach

## OUR CONVICTIONS



We aim to invest in sustainable, high quality small & mid caps, and support ESG best practices through a solid engagement policy

## DEDICATED TEAM



34 experienced specialists sharing the same floor and the same philosophy

## INTEGRATED PROCESS



An integrated and disciplined analytical process based on 5 criteria and ESG analysis, seeking sustainable quality stocks at reasonable prices

## OUTSTANDING TRACK RECORD



Strong and consistent risk-adjusted performance

# Candriam's Company Research



## Activity Exclusions & Norms-based Screening

- Exclusion of socially and/or environmentally controversial activities
- Monitoring of **controversies** related to Global Compact Principles
  - ▶ Human Rights
  - ▶ Labour Rights
  - ▶ Environment
  - ▶ Corruption



## ESG and Financial Integrated Analysis

- Quality of management
- Business growth
- Competitive Advantage
- Value creation
- Leverage



## Corporate Engagement

- Portfolio-specific engagement program
  - ▶ Small & Mid Caps-specific challenges
  - ▶ Long-term dialogue & support
  - ▶ Co-led by ESG & Equity Fundamental teams

*Indicative data which may change over time*



- > A LOOK BACK
- > ROAD TO THE FUTURE
- > A DISCIPLINED, EXTENSIVE & SELECTIVE ANALYSIS
- > EXPERTISE
- > PERFORMANCE REVIEW
- > KEY HIGHLIGHTS
- > **APPENDIX**

# Our Sustainable Goals

Candriam Sustainable Equity Europe Small & Mid Caps is a sub-fund of the SICAV **Candriam Sustainable**.

## Paris Agreement

The **objective** of the SICAV is to contribute to the European objective of limiting greenhouse gas emissions in order to achieve the long-term objectives of the **Paris agreement** and make Europe the first carbon neutral continent by 2050.

## Low Carbon

The Sub-Fund aims to achieve a **carbon footprint** that is at least **30% lower** than carbon footprint of the **MSCI Europe Small Caps<sup>®</sup> Benchmark**.<sup>(1)</sup>

## Major Objectives

In order to have long-term positive impacts, the selection of securities takes into account the **major sustainable objectives** of climate change mitigation and adaptation, resource and waste management, promotion of health and well-being, digitalisation and promotion of innovation or adaptation to demographic change.

## ESG Score

The Sub-Fund's weighted average **ESG score** aims to be **higher** than the weighted average ESG score of the **MSCI Europe Small Caps<sup>®</sup> Benchmark**.<sup>(2)</sup>

(1) Reference Benchmark: MSCI Europe Small Caps © . For the scope taken into account as well as the methodology relating to the carbon footprint, please refer to the Transparency code on Candriam's website: <https://www.candriam.com/en/private/market-insights/sri-publications/#transparency>

(2) The aim to have long-term positive impact on environment and social domains is currently assessed by the calculation of an ESG score which results from Candriam's proprietary ESG analysis.



# Our convictions



Our **proprietary ESG approach** combines both stakeholder analysis and long-term ESG trends analysis, giving our investors access to companies with a sustainable business model



Our financial analysis identifies companies with strong management teams, clear competitive advantages in growing markets, high profitability and prudent balance sheets, which results in a portfolio of **quality companies** with a solid growth potential



**Portfolio-specific engagement program**

- Taking into account Small & Mid Caps-specific challenges
- Favouring long-term dialogue & support rather than exclusion

# Fund Characteristics

CANDRIAM SUSTAINABLE EQUITY EUROPE SMALL & MID CAPS																	April-22			
<b>Legal Form</b>	UCITS - SICAV								<b>Recommended investment horizon</b>	6 years										
<b>Domicile</b>	Luxembourg								<b>Frequency of valuation</b>	Daily										
<b>Launch date</b>	December 8, 2020								<b>Delegated Management Company</b>	Candriam Belgium										
<b>Management Company</b>	Candriam Luxembourg								<b>Subscription</b>	D before 12:00 PM (CET)										
<b>Auditors</b>	PricewaterhouseCoopers								<b>Redemption</b>	D before 12:00 PM (CET)										
<b>Depository bank</b>	CACEIS Bank, Luxembourg Branch								<b>Settlement</b>	D+3										
<b>Transfer agent</b>	CACEIS Bank, Luxembourg Branch								<b>Fund currency</b>	EUR										
<b>Fund administration</b>	CACEIS Bank, Luxembourg Branch								<b>Fund AUM</b>	227 million										
<b>Registered for sale in</b>	All or some of the fund share classes are authorized in the following countries (orange coloured points)																			
	AT	BE	CH	CL	DE	DK	ES	FI	FR	GB	IE	IT	LU	NL	NO	PT	SE	SK	SG	KR
	●		●		●		●		●	●			●	●		●				

To fully understand the fund's risk profile, we advise investors to carefully review the official prospectus and the description of the underlying risks.

# Activity Exclusions & Norms-based Screening



A negative screening of issuers that do not embody sustainability

## Activity Exclusions

- **Exclusion** of **socially and/or environmentally controversial activities** including:
  - ▶ Armaments
  - ▶ Adult Content
  - ▶ Alcohol
  - ▶ Animal Testing
  - ▶ Gambling
  - ▶ Genetic Modifications
  - ▶ Nuclear
  - ▶ Tobacco
  - ▶ Thermal Coal
  - ▶ Unconventional/ Conventional Oil & Gas
  - ▶ Electricity Generation
  - ▶ Oppressive Regimes

## Norms-based Screening

- The respect of the 10 principles **UN Global Compact** covering:



- ▶ **Human rights**
  - ▶ **Labour rights**
  - ▶ **Environment**
  - ▶ **Corruption**
- **Two main principles:** a breach verification and response-based approach
  - **Issuers excluded:** repeated and significant violations, lack of appropriate response or change in behaviour

# Responsible Company: Practicing What We Preach

Appendix

Applying to ourselves what we expect from the companies we invest in



## PEOPLE

**+16,000**

hours of **training**  
provided every year



## CLIENTS

**+8,000**

Candriam Academy **members**

**Candriam Academy**, the world's 1<sup>st</sup>  
free-to-access accredited training  
platform for sustainable investing.



## COMMUNITY

**10%**

of ESG SICAV fees  
donated to  
**impact initiatives**



## VALUE CHAIN

**100%**

of our carbon emissions  
are neutralized

Every offsetting  
projects are certified by  
**Gold Standards**

*Indicative data which may change over time*

# Controversial Activities Exclusions

Exclusion	Threshold
<b>Controversial Armaments</b>	<ul style="list-style-type: none"> <li>Any involvement in: 1/ Nuclear weapons 2/Anti-personnel Landmines, 3/Cluster Bombs, 4/Depleted Uranium, 5/Chemical Weapons, 6/ Biological Weapons</li> <li>White Phosphorus: 5% revenue threshold</li> </ul>
<b>Conventional Armaments</b>	<ul style="list-style-type: none"> <li>3% revenue threshold</li> </ul>
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>10% revenue threshold</li> <li>Companies with new projects</li> </ul>
<b>Tobacco</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>Electricity Generation</b>	<p>Carbon Intensity &gt;393 (gCO<sub>2</sub>/kWh)[1]</p> <p>If data is not available:</p> <ul style="list-style-type: none"> <li>% power production based on coal: &gt;10%</li> <li>% power production based on oil &amp; gas &gt;30%</li> <li>% power production based on nuclear sources &gt;30%</li> </ul>
<b>Oil &amp; Gas</b>	<ul style="list-style-type: none"> <li>Unconventional O&amp;G : &gt; 10%</li> <li>Conventional Revenues based on natural gas or renewable energy &lt; 40%</li> </ul>
<b>Oppressive Regimes</b>	<ul style="list-style-type: none"> <li>Corporates: exclusion of companies with high human rights risks</li> <li>Sovereigns: country on our oppressive regime list</li> </ul>

Indicative data which may change over time

# Candriam Business Activities Analysis

5 global themes linked to the most significant macro trends

Every business is impacted by sustainability challenges



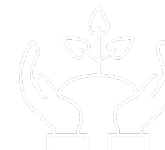
## Climate Change



## Resources & Waste



## Digitalization & Innovation



## Healthy Living & Wellbeing



## Demographic Shifts

Examples

Decarbonize business activities across the board, focusing on the most CO2 intensive sectors

Deploy renewable energy as fossil energies are progressively phased out

Scale up waste recuperation and recycling capabilities to reduce resource extraction

Mitigate impact of business activities on ecosystems to preserve biodiversity

Harness the opportunities to drive higher industrial and resource efficiencies through digital technologies

Protect data privacy, build strong and resilient digital networks

Invest in human capital through job creation, gender equality and decent working conditions

Foster R&D in fatal and chronic diseases and support universal access to healthcare

Reduce impact of air pollution on human health through improved air quality

Prepare for the requirements arising from a Western aging society

Support the demographic boom in emerging countries through investment in infrastructure and the food supply chain

Indicative data which may change over time

# Candriam Stakeholder Analysis

Looking at every dimension of how businesses are run

“Analysing how each company manages its key stakeholders, with a sector based approach to focus on the most relevant factors”



## Investors

- Quality of governance
- Business ethics
- Bribery & corruption
- Accounting standards



## Environment

- Resource efficiency
- Pollution and local impact
- Raw materials sourcing
- Climate change



## Human Capital

- Working conditions
- Employee training
- Retention policies
- Approach towards gender equality



## Clients

- Product safety & recalls
- Marketing practices
- Client information
- Anti-competitive behaviours



## Suppliers

- Environmental impact of supply chain
- Fair working conditions
- Respect of quality standards



## Society

- Relationships with local communities
- Social stewardship and responsibility
- Lobbying practices and policies

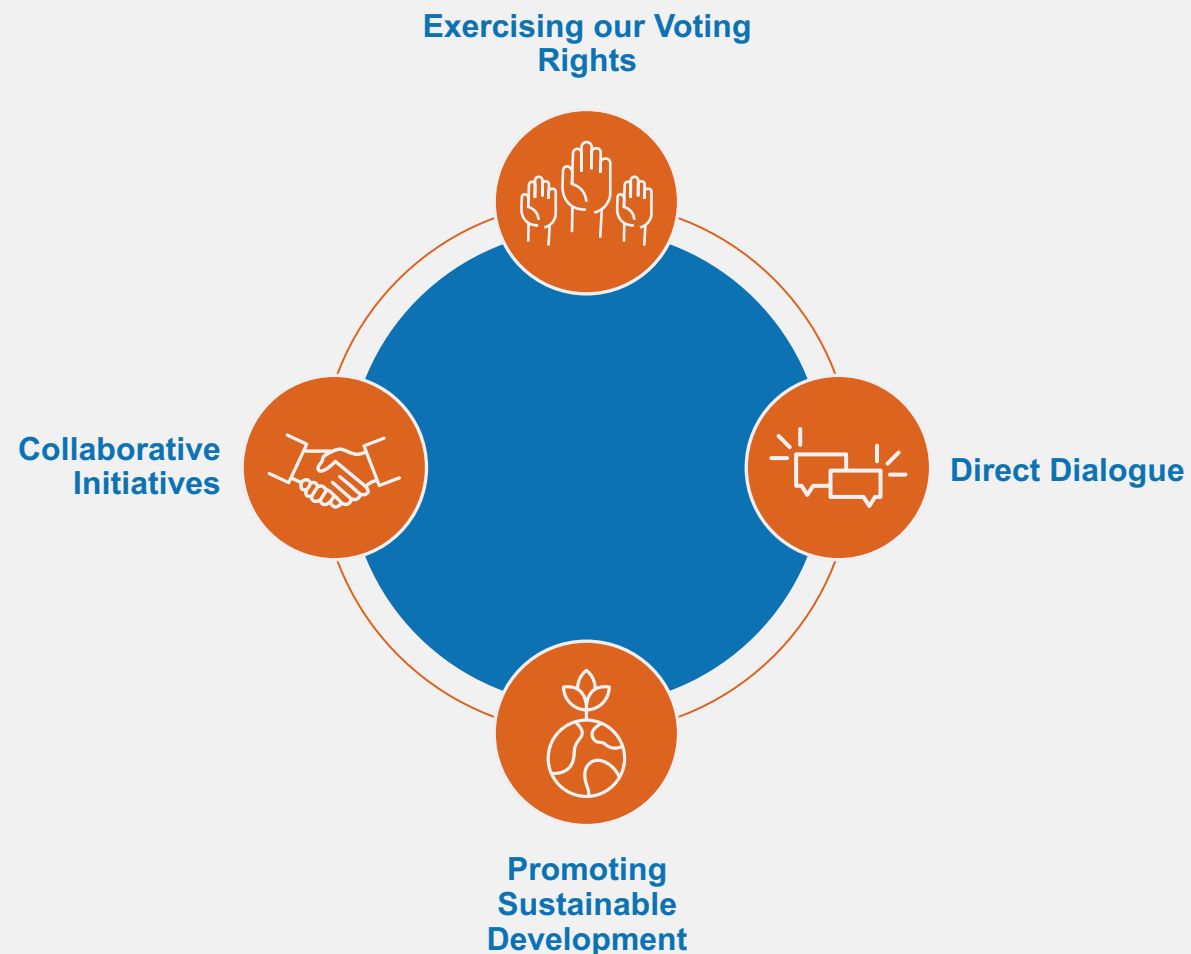
Indicative data which may change over time

# Stewardship Activities

Active Ownership via Various Facets

## OBJECTIVES

- Encourage improvements in corporate ESG disclosure
- Influence corporate practices on ESG issues
- Promote sustainable finance



Indicative data which may change over time

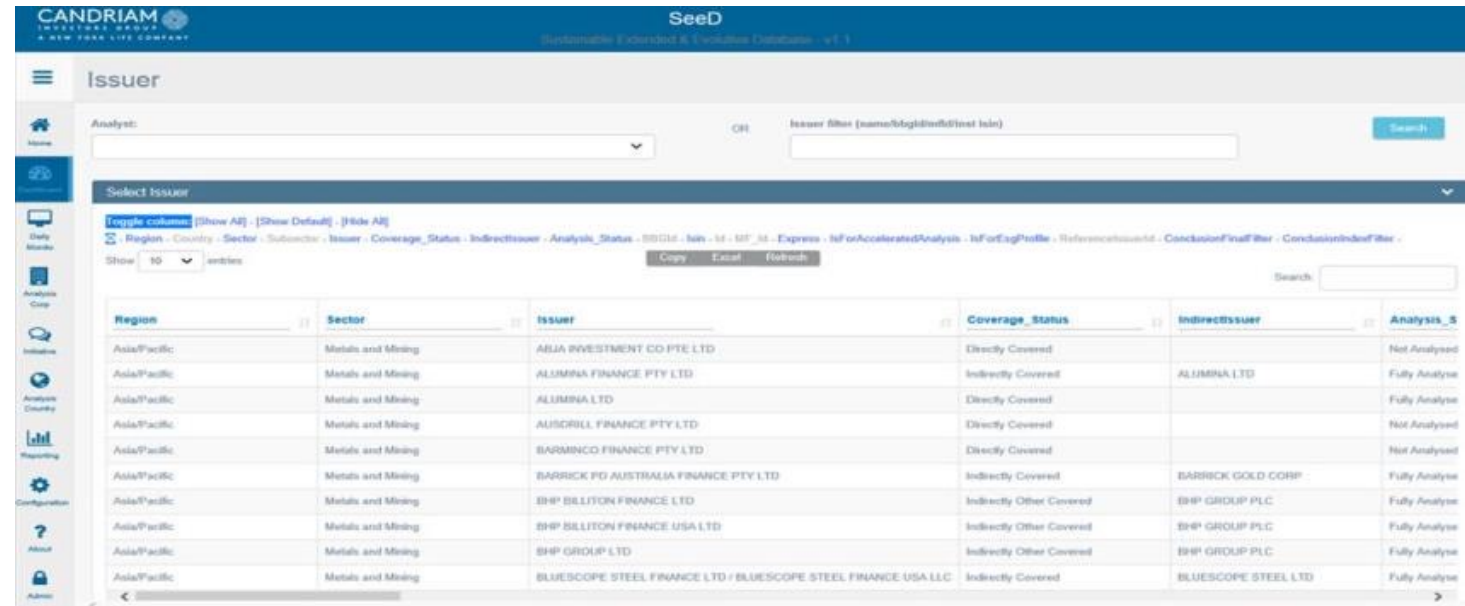


# Moving from Big Data to ESG Knowledge

Proprietary and extensive in-house ESG database

- The **ESG analysts use multiple sources of information**
  - ▶ Company sustainability agencies: Sustainalytics, MSCI ESG, ISS-Ethix, S&P-Trucost, ISS-Oekom
  - ▶ Company publications & reports
  - ▶ Media
  - ▶ Specialised NGO's
  - ▶ Industry experts
  - ▶ Industry associations
  - ▶ Broker Research

- **Proprietary in-house ESG database** allows us to:
  - ▶ Capitalize on data provided by sustainable agencies
  - ▶ Enhance database by our ESG analysis
  - ▶ Integrate our ESG models and provide ESG profiles
  - ▶ Monitor and update the ESG analysis on an ongoing basis
  - ▶ Propose tailor-made ESG screenings or revenue-based thresholds



The screenshot displays the 'SeeD' interface, a 'Customisable Extended & Evolvable Database v1.1'. The main section is titled 'Issuer' and features a search bar for 'Issuer filter (name/flight/indirect issuer)'. Below the search bar is a 'Select Issuer' dropdown menu. A table of issuers is shown with the following columns: Region, Sector, Issuer, Coverage Status, Indirect Issuer, and Analysis Status. The table contains 10 rows of data.

Region	Sector	Issuer	Coverage Status	Indirect Issuer	Analysis Status
Asia/Pacific	Metals and Mining	ABJA INVESTMENT CO PTE LTD	Directly Covered		Not Analyzed
Asia/Pacific	Metals and Mining	ALUMINA FINANCE PTY LTD	Indirectly Covered	ALUMINA LTD	Fully Analyzed
Asia/Pacific	Metals and Mining	ALUMINA LTD	Directly Covered		Fully Analyzed
Asia/Pacific	Metals and Mining	AUSDRILL FINANCE PTY LTD	Directly Covered		Not Analyzed
Asia/Pacific	Metals and Mining	BARMICO FINANCE PTY LTD	Directly Covered		Not Analyzed
Asia/Pacific	Metals and Mining	BARRICK PG AUSTRALIA FINANCE PTY LTD	Indirectly Covered	BARRICK GOLD CORP	Fully Analyzed
Asia/Pacific	Metals and Mining	BHP BILLITON FINANCE LTD	Indirectly Other Covered	BHP GROUP PLC	Fully Analyzed
Asia/Pacific	Metals and Mining	BHP BILLITON FINANCE USA LTD	Indirectly Other Covered	BHP GROUP PLC	Fully Analyzed
Asia/Pacific	Metals and Mining	BHP GROUP LTD	Indirectly Other Covered	BHP GROUP PLC	Fully Analyzed
Asia/Pacific	Metals and Mining	BLUESCOPE STEEL FINANCE LTD / BLUESCOPE STEEL FINANCE USA LLC	Indirectly Covered	BLUESCOPE STEEL LTD	Fully Analyzed

# Active Member of Several Sustainability Initiatives

Candriam's commitments go beyond investments



Principles for Responsible Investment, Founding signatory



Carbon footprint of our ESG funds -47% against their benchmark



UK Stewardship Code, Tier 1 rating



Signatory, Paris Pledge for Action



Carbon Disclosure Project: Lead investor for over 20 companies



Signatory, engagement with greenhouse gas emitters to promote transparency & sustainable practices



Improving corporate behavior and sustainable practices, ranked 8<sup>th</sup> for best transparency and sustainable investment practices



Signatory, framework for investors to transition the world's financial capital to low-carbon opportunities



Signatory, Engagement on the threats posed by plastic polluting and best practices in packaging



Signatory, promote best practices in pharmaceutical industry to improve access to medicine in low-to-middle income countries



Signatory, Engagement with food & beverage industry to adapt best practices in addressing global nutrition challenges



Supporting investor, engagement to secure annual comparable workforce reporting



Signatory, Engagement to promote management of ESG in protein supply chains

Indicative data which may change over time

**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.

**Warning:** Past performance of a given financial instrument or index or an investment service or strategy, or simulations of past performance, or forecasts of future performance does not predict future returns. Gross performances may be impacted by commissions, fees and other expenses. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change.

In respect to money market funds, please be aware that an investment in a fund is different from an investment in deposits and that the investment's principal is capable of fluctuation. The fund does not rely on external support for guaranteeing its liquidity or stabilizing its NAV per unit or share. The risk of loss of the principal is borne by the investor.

**Candriam consistently recommends investors to consult via our website [www.candriam.com](http://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.** Investor rights and complaints procedure, are accessible on Candriam's dedicated regulatory webpages <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>. This information is available either in English or in local languages for each country where the fund's marketing is approved. **This is a marketing communication. Please refer to the prospectus of the fund and to the key information document before making any final investment decision.** According to the applicable laws and regulations, Candriam may decide to terminate the arrangements made for the marketing of a relevant fund at any time.

**Information on sustainability-related aspects:** the information on sustainability-related aspects contained in this communication are available on Candriam webpage <https://www.candriam.com/en/professional/market-insights/sfdr/>. The decision to invest in the promoted product should take into account all the characteristics or objectives of the promoted product as described in its prospectus, or in the information documents which are to be disclosed to investors in accordance with the applicable law.

**Notice to investors in Switzerland:** The information provided herein does not constitute an offer of financial instruments in Switzerland pursuant to the Swiss Financial Services Act ("FinSA") and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for financial instruments.

Swiss representative: CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon. The legal documents as well as the latest annual and semi-annual financial reports, if any, of the investment funds may be obtained free of charge from the Swiss representative.

Swiss paying agent: CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. Place of performance: Route de Signy 35, CH-1260 Nyon. Place of jurisdiction: Route de Signy 35, CH-1260 Nyon.

**Specific information for investors in France:** the appointed representative and paying agent in France is CACEIS Bank, Luxembourg Branch, sis 1-3, place Valhubert, 75013 Paris, France. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in France.

**Specific information for investors in Spain:** Candriam Luxembourg Sucursal en España has its registered office at C/ Pedro Teixeira, 8, Edif. Iberia Mart I, planta 4, 28020 Madrid and is registered with the Comisión Nacional del Mercado de Valores (CNMV) as an European Economic Area management company with a branch. CNMV: 1493

