

Environmental and/or social characteristics

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.

Did this financial product have a sustainable investment objective?



YES

- It made **sustainable investments with an environmental objective: ___%**
- in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- It made **sustainable investments with a social objective: ___%**



NO

- It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 90% of sustainable investments
- with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- with a social objective
- It promoted E/S characteristics, but **did not make any sustainable investments**



To what extent were the environmental and/or social characteristics promoted by this financial product met?

The environmental and social characteristics promoted by the Sub-fund have been achieved by:

- avoiding exposure to companies that present structural risks that are both material and severe and are most seriously in breach of normative principles taking into account practices in environmental and social issues as well as compliance with standards such as the United Nations Global Compact and the 'OECD Guidelines for Business standards.
- avoiding exposure to companies that are significantly exposed to controversial activities such extraction, transportation or distribution of thermal coal, the manufacturing or retailing of Tobacco and production or sale of controversial weapons (anti-personnel mines, cluster bombs, chemical, biological, phosphorus weapons white and depleted uranium.
- integrating Candriam's ESG research methodology into the investment process and investing a proportion of its assets in Sustainable Investments.

● **How did the sustainability indicators perform?**

For the selection of sustainable investments, the portfolio manager has taken into account ESG assessments of issuers, produced by Candriam's ESG analyst team.

For companies, these assessments are based on the analysis of the company's interactions with its key stakeholders and the analysis of its business activities and their impact, positive or negative, on key sustainability challenges such as climate

change and resource depletion. In addition, Candriam's ESG analysis includes exclusion filters based on compliance with international standards and involvement in controversial activities.

Candriam's ESG research and analysis for sustainable investments also assesses the compliance of investments with the «do no harm» principle to a sustainable investment objective and with good governance practices.

This integration of Candriam's ESG research methodology has enabled the Fund to meet the minimum proportion of sustainable investments defined in the prospectus (minimum 33%). The proportion of sustainable investments in the Fund was therefore above this minimum threshold, as detailed in the section «What was the proportion of sustainability-related investments?»

● **... And compared to previous periods?**

Not applicable because no previous period data is available.

● **What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objective?**

The sustainable investments which the Sub-fund intended to achieve for a portion of the portfolio were to have a positive impact on environment and social domains in the long-term.

The proportion of sustainable investments was higher than the minimum defined in the prospectus (minimum 33%). It allowed the Sub-fund to exceed the objectives initially set.

However, the Sub-fund is not able to publish a percentage of alignment with the Taxonomy since a small number of companies at global level provide the data necessary for a rigorous assessment of their alignment with the Taxonomy.

● **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**

Candriam ensured that those investments have not cause significant harm to any environmental and/or social sustainable investment objective by means of its ESG research and analysis of corporate issuers.

Based on its proprietary ESG Ratings and Scorings, Candriam's ESG methodology sets criteria and minimum thresholds to identify those issuers that qualify as 'sustainable investment' and, in particular, have not cause significant harm to any environmental and/or social sustainable investment objective.

The 'Do not significant harm' principle, in particular, was assessed for corporates through:

- the consideration of "principal adverse impacts"
- the alignment with the OECD Guidelines for Multinational Enterprises and the UN Global Compact to ensure minimum environmental & social safeguards.

For more details, refer to the section below on the consideration of principal adverse impacts on sustainability factors.

----- **How were the indicators for adverse impacts on sustainability factors taken into account?**

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.

The consideration of adverse impacts is central to Candriam's sustainable investment approach. Principal adverse impacts were taken into account throughout the entire ESG research and analysis process and through a wide range of methods:

1. ESG rating of corporates: the ESG research and screening methodology considers and assesses the principal adverse impact on sustainability from two distinct, but interlinked, angles:

- the company's issuers' business activities and how they impact, either positively or negatively, key sustainable challenges such as climate change and resource depletion;
- company's interactions with key stakeholders.

2. Negative screening of companies, which includes a norms-based exclusion and an exclusion of companies involved in controversial activities.

3. Engagement activities with companies, through dialogue and voting activities, which contribute to avoiding or reducing the extent of the adverse impacts. The ESG analysis framework and its results feed our engagement process, and vice versa.

The integration of the principal adverse impacts on sustainability factors has been based on the materiality or likely materiality of each indicator for each specific industry / sector to which the company belongs. The materiality is dependent on several factors, such as: type of information, data quality and breadth, applicability, relevance, and geographical coverage.

Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

The sustainable investments of the Sub-fund have been compliant with the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

They are subject to a norms-based controversy analysis that considers the compliance with the international social, human, environmental and anti-corruption standards, as defined by the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. The International Labour Organisation and International Bill of Human Rights are part of the many international references integrated into our norms-based analysis and ESG model.

This analysis aimed to exclude companies that have significantly and repeatedly breached any 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 Union 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.



How did this financial product consider principal adverse impacts on sustainability factors?

At Sub-Fund level, the principal adverse impacts (PAI) on sustainability factors were considered through one or several means (cfr. Candriam's PAI statement : <https://www.candriam.com/en/private/sfdr/>):

- Engagement & Voting: in order to avoid and/or reduce the adverse impact on sustainable objectives, the Sub-Fund also considered the adverse impacts in its interactions with companies, through dialogue and voting. Candriam prioritised its engagement and voting activities according to an evaluation of the most material and relevant ESG challenges, facing industries and issuers, by considering both the financial and societal / stakeholder impacts. Therefore, the level of engagement with each company within the same product may vary and is subject to Candriam's prioritisation methodology.
 - Dialogue:

Climate (PAI1 to PAI6) is obviously central in our exchanges with companies. Priorities of Climate-engagement on the corporate side are identified taking into account :

- issuers presenting a weak transition profile (proprietary risk transition model), and/or still highly carbon intensive (Scope 1-2) or with large Scope 3 emissions,
- issuers from financial sectors still largely exposed to fossil fuel and with a key role in financing the transition
- relative exposure of managed portfolios to the above issuers.

Our objective is obviously to encourage companies to publicly report on how they align with a 1.5D trajectory and to support such an alignment. Beyond any Net Zero commitment and Scope1-2-3 absolute emissions disclosure, Candriam

thus encourage them to provide insights on how short / mid term targets are aligned with scientifically recognized 1.5D trajectory. We expect issuers in particular to explain how their strategy and capital expenditures plan serve their decarbonisation commitment. We usually combine individual and collaborative dialogue. As in previous year, we continue to support and actively participate to several collaborative initiatives such Climate Action 100+ . These initiatives contribute not only to increase the level of transparency on Greenhouse gas emissions and related strategy, but also to gain fundamental leverage for supporting strategic changes. Outcomes of these engagements are detailed in our annual engagement & voting report, available on our public website (<https://www.candriam.com/en/professional/insight-overview/publications/#sri-publications>) .

Given the geopolitical context and observed increase of inequalities, several engagements have also been performed in relation to the protection of fundamental human rights at direct or indirect workforce level (supply chain due diligence) (PAI10, PAI11). We also conducted a dedicated Post-covid direct engagement campaign aiming at investigating how relationships with stakeholders were impacted and the changes now integrated as the “new normal” course of business for Candriam’s investee companies. In the same vein, Human capital management is an aspect we address in most of our exchanges with companies. We continue to support Workforce Disclosure Initiative defending a better access to reliable, relevant and comparable data on companies’ direct and indirect workforces.

○ Voting:

The Candriam’s approach to Corporate Governance relies on internationally-recognized standards, notably the principles laid down by the OECD as well as by the International Corporate Governance Network (ICGN).

In that respect, Candriam has exercised its voting rights when available on positions of the portfolio. Shareholders’ rights, equality of shareholders, board accountability, transparency and integrity of financial statements are core pillars of our voting policy. Remuneration and directors’ election concentrate most of our votes against management. Indeed, we require companies to respect the pay-for-performance principle and will show our disagreement as soon as we consider the level of remuneration excessive or conditions of attribution not transparent enough nor challenging. Equally, we expect companies to comply with our minimum independence requirements : at boards failing to meet this requirement, we oppose (re-)election of any non-independent director, except CEO. Diversity (PAI13) and expertise level of the board are of course also taken into account in these votes.

In addition, Candriam always considers the relevance, consistence and feasibility of measures sponsored by any ESG resolution before casting vote.

In the best interest of its clients, Candriam considers internal ESG opinion on the investee companies but also any outcomes of engagement with them, in its voting choices.

In the context of Candriam’s voting policy, specific guidelines are applied for a range of environmental- (e.g. climate (PAI1 to PAI6), biodiversity (PAI7)), social- (e.g. diversity, gender pay gap (PAI12), human rights (PAI10, PAI11)) and governance-related management and shareholder resolutions. More specifically, Candriam welcomes the introduction of management-sponsored ‘Say-on-Climate’ resolutions. Candriam built a detailed framework to be applied to every Say-on-Climate resolution, which assesses the stringency and the alignment of the company transition strategy with a 2050 net zero emissions pathway. As a result, most of these did not get our support during the period.

- Exclusion: Candriam's negative screening of companies or countries aimed to avoid investments in harmful activities or practices and may led to exclusions linked to comparnies' or issuers' adverse impact.
- Monitoring: calculation and evaluation of the principal adverse impact indicators including the reporting at Sub-Fund level. Some of these indicators may have explicit targets and can be used to measure the attainment of the sustainable investment objective of the sub-fund. See below the results of the indicators of this Sub-fund :

PAI indicators	Value
10 - Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	0.00%
14 - Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	0.00%



What were the top investments of this financial product?

The list includes the investments constituting the greatest proportion of investments of the financial product during the reference period which is: 31/12/2022

Top investments	Sector	Proportion	Country
REGENERON PHARMACEUTICALS INC	Biotechnology	6.87%	US
GILEAD SCIENCES INC	Biotechnology	6.56%	US
AMGEN INC	Pharmaceuticals	5.85%	US
VERTEX PHARMACEUTICALS INC	Biotechnology	5.38%	US
BIOGEN IDEC INC	Pharmaceuticals	4.12%	US
ALNYLAM PHARMACEUTICALS INC	Pharmaceuticals	4.04%	US
MODERNA INC	Biotechnology	3.71%	US
SEAGEN INC	Biotechnology	2.73%	US
HORIZON THERAPEUTICS PLC	Pharmaceuticals	2.25%	IE
ASTRAZENECA PLC	Pharmaceuticals	2.13%	GB
ILLUMINA INC	Pharmaceuticals	1.84%	US
BIOMARIN PHARMACEUTICAL INC	Biotechnology	1.78%	US
GENMAB AS	Biotechnology	1.78%	DK
XENON PHARMA --- REGISTERED SHS	Pharmaceuticals	1.64%	CA
INCYTE CORP	Biotechnology	1.63%	US

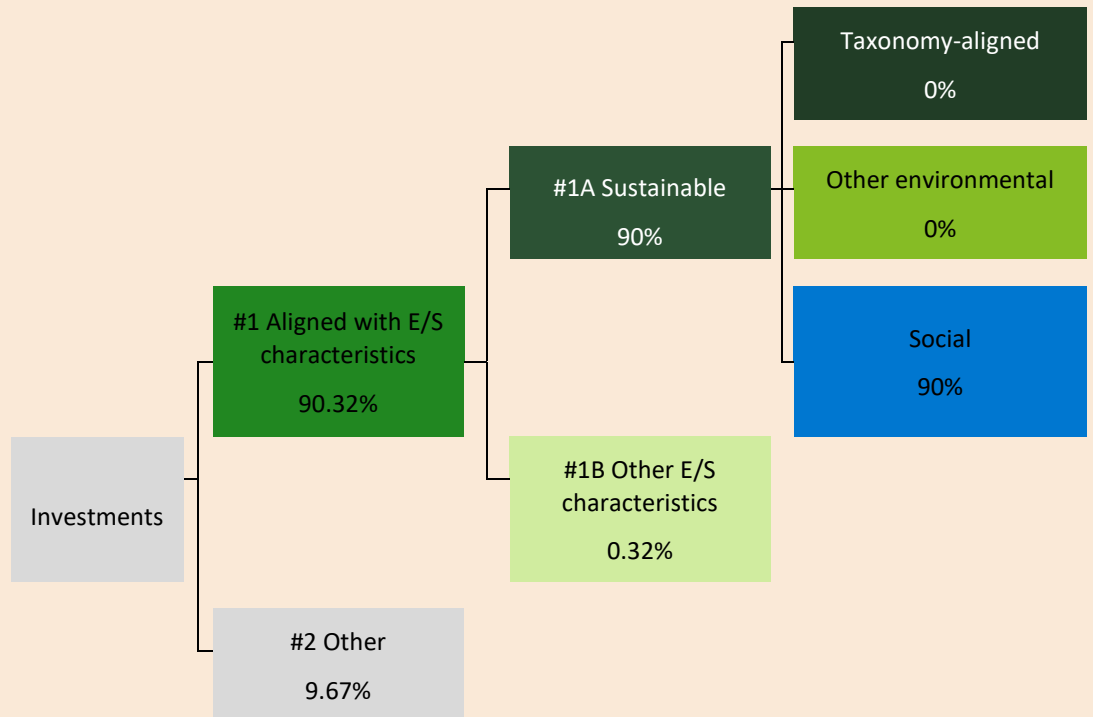
Minor differences may be present between the data above and the corresponding ones in the section "Investment portfolio" of the annual report due to the number rounding process



What was the proportion of sustainability-related investments?

What was the asset allocation?

Asset allocation describes the share of investments in specific assets.



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

● ***In which economic sectors were the investments made?***

Top sector	Proportion
Biotechnology	50.90%
Pharmaceuticals	40.66%
Banks and other financial institutions	2.51%
Electronics and semiconductors	1.46%
Machine and apparatus construction	1.34%
Miscellaneous services	0.78%
Healthcare	0.60%

Minor differences may be present between the data above and the corresponding ones in the section "Investment portfolio" of the annual report due to the number rounding process



To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

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.

Taxonomy-aligned activities are expressed as a share of:

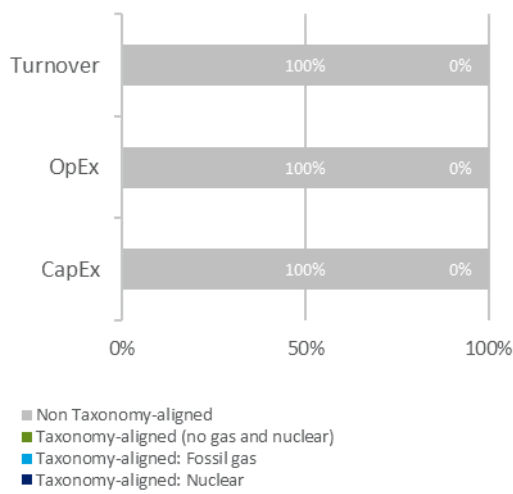
- **turnover** reflecting the share of revenue from green activities of investee companies.
- **capital expenditure (CapEx)** showing the green investments made by investee companies, e.g for a transition to a green economy.
- **operational expenditure (OpEx)** reflecting the green operational activities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

Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy ¹?

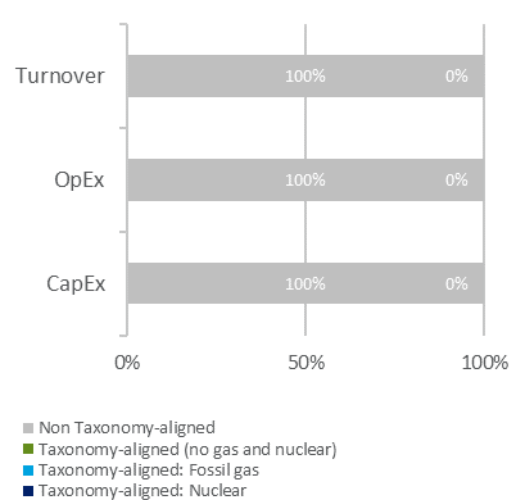
- Yes
- In fossil gas In nuclear energy
- No

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*



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

What was the share of investments made in transitional and enabling activities?

The Sub-Fund is unable to publish a percentage of alignment with the Taxonomy, nor on the transitional and enabling activities, as very few companies at global level provide the data necessary for a rigorous assessment of their alignment with the Taxonomy.

How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?

Not applicable because no previous period data is available

What is the breakdown of the proportion of the investments per each of the EU Taxonomy to which those investments contributed?

¹ 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.

The Sub-Fund is unable to publish a percentage of alignment with the Taxonomy, as very few companies at global level provide the data necessary for a rigorous assessment of their alignment with the Taxonomy

Therefore, this percentage is considered as nul.

 are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under Regulation (EU) 2020/852.

What was the share of sustainable investments with an environmental objective not aligned with the EU taxonomy?

The Sub-Fund had a share of 0% in sustainable investments on the environmental plan not aligned with the EU taxonomy.

Indeed to date, only two of the six objectives have entered into force in 2022 and very few companies at global level provide the data necessary for a rigorous assessment of their alignment with the Taxonomy.

What was the share of socially sustainable investments?

The Sub-fund had a share of investments with a social objective of 90%

What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?

The investments included under «Other» are present in the Sub-fund for 9.67% of the total net assets.

These investments include one or more of the following assets:

- Cash: Cash at sight, cash deposit, reverse repo needed to manage the liquidity of the Sub-fund following subscriptions/redemptions or being the result of the decision of market exposure of the Sub-Fund;
- Investments with issuers with E/S characteristics at the moment of the investment and are not fully aligned anymore with the Candriam investment with E/S criteria. These investments are planned to be sold;
- Other investments (including single name derivatives) purchased for diversification purposes and that might not be subject to an ESG screening or for which ESG data is not available;
- Non single name derivatives used for efficient portfolio management and/or for hedging purposes and/or temporarily following subscriptions/redemptions



What actions have been taken to meet the environmental and/or social characteristics during the reference period?

In order to respect the environmental and/or social characteristics during the reference period, the sub-fund initiated in issuers with a positive ESG profile, based on Candriam's independent ESG rating assessment. Esai and Zealand Pharmaceuticals, for which we expect also positive clinical news, are two examples of this.

In order to respect the environmental and/or social characteristics during the reference period, the sub-fund increased issuers with a positive ESG profile, based on Candriam's independent ESG rating assessment. Relay, that published good clinical data, is a good example of this, as it's internal ESG rating was increased from 6 to 5 in August (on a scale from 1 to 10, with 1 being the best and 10 the worst).

To give expression to the fact that challenges relating to climate change have been taken into account, the carbon footprint of companies is measured. As at 31/12/2022, the fund's carbon footprint was 2.46 tCO₂-eq / million euro invested, compared to 3.25 tCO₂-eq / million euro invested for the fund benchmark.



How did this financial product perform compared to the reference benchmark?

No index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund

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