

CONVICTION & RESPONSIBILITY

A business focused on its stakeholders

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Laying the foundations for long-term returns

In 2018, financial markets around the world had to cope with some powerful headwinds. Candriam not only resisted this turmoil, it also continued to build an effective, diversified investment platform that will provide competitive returns for clients in the long term.



INTERVIEW

Vincent Hamelink
Chief Investment Officer

Our overall investment approach is based on long-term quality and robustness

A range of factors made 2018 a challenging year, particularly in the second half. These factors are driven by a slowing global economy, concerns about monetary policy, escalating geopolitical tensions from the trade war between the US and China to Brexit and the notable repricing of equities and bonds in emerging markets. Worldwide, most asset classes finished the year in negative territory. Given this context, Candriam's investment teams remained focused on generating the best possible long-term, risk-adjusted returns for clients and that strategy has proved its worth. Our absolute performance, emerging markets debt, high yield and European equities all performed particularly well in relative terms. By the end of the year, the proportion of our funds with 3, 4 or 5 stars from Morningstar had increased to more than 85%, a significantly higher percentage than the market average of 67.5%.

What were the ingredients of that resilience?

Our overall investment approach is driven by high-quality proprietary research and a robust investment and portfolio construction process based on rigorous risk frameworks. It is an approach designed to deliver sustainable long term returns. Our stable investment teams, whose average tenure with Candriam is 16 years, provide consistency in the investment process. This allows us to put in place long-lasting analysis and to continuously upgrade and fine-tune our products.

A very good example of that is our expertise in High Yield, which has not had a single default since it was launched in 1999 and has increased over time, winning no fewer than nine awards in 2018! Another good example is our ESG investing expertise, which we have consistently developed since 1996 – gradually building a team of 20 experts, developing a wide range of solutions and proprietary analysis, and gathering more than €35bn of assets overall. ESG is fashionable today, but 20 years ago nobody wanted to hear about it! We are now reaping the benefits of what we have sown over several decades. And it's the same for our expertise in Thematic Equities, Emerging Markets and Absolute Performance management.

Do you think this trend for ESG-led investment will continue?

It will not only continue, it will accelerate! Regulation is imposing ever-increasing monitoring and transparency constraints regarding non-financial criteria on all economic agents, particularly institutional investors and corporates. In this respect, the threat we face today from global warming is acting as an accelerator, as it demands a very urgent (and welcome) response.

What's more, it is becoming a huge investment opportunity! The cost of combating climate change is decreasing, the benefits of that combat have become more obvious, and greater numbers of consumers are taking action at an individual level. As a result, climate change is already affecting consumption patterns, corporate profitability and corporate behaviour. The energy transition, eco-mobility, sustainable buildings, clean water and water efficiency, digital education, the circular economy, waste management, wellness, longevity, upcycling, and the sharing economy are all amazing opportunities for investors.

So yes, ESG investment will continue to grow, and we hope to accompany an increasing number of existing clients and prospects to benefit from that growth.



How does this impact product innovation?

There is a lot of demand for new investment ideas that make a tangible impact in ESG terms, and in response, institutional investors are stepping up the pace. We have further developed our leadership and expertise in responsible investment in many areas, extending our exclusion policy and developing tailor-made solutions – like the open-ended fund that is free of all fossil fuels and was developed for Belgian universities.

Lastly, Candriam carried out a number of external growth operations in 2018. How did they impact your investment teams?

We made several additions, with the integration of the ABN AMRO Investment Solutions' teams in Equities, Fixed Income and Convertible Bonds, the incorporation of new Risk Arbitrage expertise, and the acquisition of an equity stake in Tristan Capital Partners. Together, they have given us the opportunity to fine-tune our organisational structure and to better align it with the current and future needs of our clients. We are very excited about these changes, which have already started to deliver value for our clients.



Finance has a role to play
in shaping a more sustainable
future for us all.

ESG strategies and mandates:
31% of €115bn AUM

Responsible investment: Candriam's philosophy

For Candriam, responsible investing is based on our belief that valuing a company is not just a calculation of financial criteria, such as revenues and margin growth. We also fundamentally believe that its positioning and exposure in terms of Environmental, Social and Governance (ESG) factors will also affect its competitiveness and value over the long term.



To measure that exposure, Candriam uses a variety of tools, processes and information sources – most of them being proprietary. These include the declarations of climate-related financial risks that companies are recommended to produce by the Financial Stability Board's Task Force on Climate-related Financial Disclosures. In particular, Candriam has identified two types of climate-related risk – physical ones that make an immediate material, financial and reputational impact, and those risks/opportunities linked to the energy transition. Both are factored into our decision-making for investment, using metrics such as carbon footprints and energy mix.

As a result, Candriam is notably able to offer a range of tailor-made 'low-carbon' and 'fossil-free' solutions to clients that are fully aligned with our financial risk/reward targets. By ruling out companies with a significant exposure to thermal coal at any stage of the value chain, the selection leads to a reduction in the strategy's carbon footprint of 30%–40% compared to traditional benchmarks, along with compliance with the world's 1.5°C climate goal.

A process for gauging sustainability

To deliver on our investment philosophy in a way that manages risk and optimises the opportunities for our clients, Candriam has developed a unique process for examining the sustainability challenges facing corporate issuers. Fine-tuned over the last years, it has three parts.

Sustainable trends and stakeholder approach

To understand a company's ability to manage the sustainable development issues of its particular sector, Candriam carries out two complementary screening processes. Firstly, a macro-analysis indicates the company's exposure to six global sustainability trends that will shape its market and potential over the long term: climate change, resource depletion, demographic evolution, interconnectivity, health and wellness, and developing economies. Separately, a micro-level analysis looks at a company's ability to incorporate stakeholder interests (customers, employees, etc.) into its long-term strategy.

Compliance with the United Nations Global Compact

Analyses are also carried out to identify, and potentially remove, any company in a Candriam portfolio that has been involved in a major or repeated breach of the UN Global Compact, whose 10 principles cover human rights, labour rights, the environment and anti-corruption.

Checks for controversial activities

In addition, Candriam assesses a company's activities in controversial businesses, such as adult content, alcohol, gambling and animal testing, with any unacceptable level of involvement leading to exclusion from its ESG strategies. In 2018, Candriam announced an extension of its exclusion policy, divesting from companies active in tobacco production, thermal coal, and chemical, biological and white phosphorus weapons for all its assets.

In addition to its ESG product range, Candriam also offers tailored ESG screening of its 'classic' investment strategies. On top of the exclusion policy already used for all portfolios, clients can add customised combinations of our ESG filters to our standard strategies or opt for 'green bonds' or ESG thematics within their portfolios.



€36bn
in pure ESG strategies

We fundamentally believe that exposure to ESG factors will affect a company's competitiveness and value over the long term.

Fixed income

Candriam has a strong track record in designing and managing fixed income solutions across asset classes.

Candriam manages a wide range of bond funds, more than 80% of which have been awarded between a three and five-star rating by Morningstar for their strong risk-adjusted returns. The company's approach to fixed income is based on three key beliefs. Firstly, that bond markets are inefficient, which has led Candriam to build detailed valuation frameworks to exploit pricing anomalies. Secondly, since bonds have an asymmetric risk profile, the team carries out rigorous bottom-up research that specifically integrates ESG factors, supported by proprietary credit rating models, to select the most attractive bond issues. Finally, unwanted risks can sometimes be embedded during portfolio construction. To adequately address this issue, Candriam employs a strict risk-budgeting process to minimize the risks.

Key centres of excellence

Candriam operates a wide range of highly successful fixed income strategies, all of which are available as mutual funds or customisable mandates. The fixed income team consists of over 40 investment professionals, including portfolio managers, as well as fundamental and quantitative analysts with an average of over 13 years of industry experience. The team encapsulates four centres of expertise Global Credit, Convertible Bonds, Global Bonds, and Emerging Market Debt. Each unit includes experienced analysts that focus on assigned sectors, as well as seasoned portfolio managers that are responsible and accountable for specific funds. They are also supported by a team of

quantitative analysts. The distinct units are in constant interaction with each other, fostering team synergies and facilitating cross-fertilization of ideas across expertise and sub-segments of the fixed income universe. Each centre of excellence offers a wide range of investment strategies that include long only, unconstrained and SRI funds, catering to a wide range of investor risk profiles.

Enhancing the offering

Growth in fixed income assets has been accompanied by an expansion of the product range through the launch of innovative solutions that respond to market challenges. In late 2017, Candriam launched one of the first ESG High Yield strategies on the market, while the first ESG Emerging Market Debt fund was launched as early as December 2016. There was strong demand for these strategies throughout 2018, and since their inception, both funds have posted strong returns. To meet the evolving needs of clients, Candriam has adapted its offering in 2018 by launching an unconstrained EM Debt Total Return strategy as well as a Floating Rate Notes strategy. These product launches reflect the continuous desire of Candriam to anticipate investor needs and respond to market challenges.

€38bn

AUM in fixed income

Equities

Candriam selects companies that have clear and sustainable competitive advantages.

Strong convictions, strong results

The high rankings of our equity strategies are not a coincidence; our processes are predicated on in-house research and a high-conviction approach. This applies to our fundamental stock selection, as well as to the factors underpinning our quantitative and alternative models. We have built unique and disciplined investment processes, from stock selection to portfolio construction, detecting companies that outclass peers thanks to their clear and sustainable competitive advantages.

Disciplined stock-picking

In order to detect those winners of tomorrow, we employ a bottom-up stock-picking process designed to unearth companies that have strong fundamentals. This process screens for five main investment criteria: quality of management, business growth, competitive advantage, value creation and financial leverage adequacy.

€1.1bn Net New Cash
for Candriam's biotech fund in 2018

€22bn

AUM in Equity

Today, ESG factors are fully integrated into our fundamental equity analysis as we are convinced about their market value. Approximately one third of Candriam's assets under management are 'pure ESG' funds.

Stable and experienced teams

Our team of 46 specialists approaches the market company by company, searching for stocks that offer clear, tangible added value. Our analysts have covered the relevant sector for at least 10 years on average. Each understands a company's financial profile and the relevant market drivers. They have the skills and the tools to create proprietary financial models in order to estimate a company's intrinsic value.

Innovative strategies

In a fast-evolving world, structural trends offer attractive new investment opportunities. At Candriam, we identify trends with a lasting impact, such as the ageing of the global population, the expanding middle class in emerging markets, disruptive technologies, innovations, medical discoveries or environmental protection. For more than two decades, we have developed innovative strategies that capitalise on these trends, using in-depth scientific and industry knowledge.

Absolute performance

Candriam is a recognised leader in Europe for alternative strategies that deliver market-leading performance.

Over the last two decades, Candriam has developed a diversified and liquid product range. The company has established its leading position in Europe thanks to a strong commitment to performance and innovation. Our strategies have received regular distinctions from major financial publications including Eurohedge, Hedge Fund Manager and Hedge Fund Review. Designed to provide consistent long-term returns, Candriam currently operates a dozen strategies across long/short credit, equity absolute return, fund of hedge funds and multi asset strategies.

Key centres of excellence

Absolute return has been at the core of Candriam's expertise with the launch of its very first alternative strategy in 1996. Today, Candriam is one of the leading European firms in absolute return solutions and a well-known player in long/short credit and equity market neutral strategies. With close to €3 billion of assets, long/short credit remains a key expertise at Candriam. The company has also been a pioneer in innovative equity market neutral strategies with the launch in 2003 of the very first Index Arbitrage fund, and today manages over €1 billion in this strategy.

Expansion in 2018

Candriam further developed its absolute return offering in 2018, with the addition of a decorrelated strategy to offer its clients an alternative to pure directional funds. A new investment team in M&A Arbitrage from OFI AM joined Candriam to build one of the largest UCITS M&A Arbitrage funds in the industry.

€258m

**Net New Cash for Candriam Risk
Arbitrage in 2018**

Asset Allocation

Managed by a highly experienced team, Candriam offers customised portfolios to meet the needs of its clients.

Candriam has been managing balanced portfolios for more than 25 years, providing a range of strategies to meet the needs of retail, private and institutional investors. After the 2008 financial crisis, Candriam was among the first asset managers to recognise the benefits of true asset class diversification, incorporating less conventional classes such as emerging-market assets, high-yield credit, currencies and absolute-return vehicles into our portfolios. The last addition to the range of multi-asset products is a flexible strategy focused on tackling today's challenges of low yield, increasing correlation between and within asset classes and fluctuating returns (or spikes of volatility) even in the most liquid asset classes.

Flexibility and diversification

By taking active allocation decisions, Candriam's multi-asset strategies are designed to identify the optimal combination of asset classes within an adequate risk framework. Available in four risk profiles, they are ideal for investors willing to accept a degree of market volatility in order to seize the best investment opportunities. Strategies with a focus on Environmental, Social and Governance factors are available, drawing on Candriam's market-leading expertise in the increasingly popular ESG space. A key feature of all Candriam's asset allocation strategies is their management by a highly experienced and stable team of 25 experts, supported by asset-class specialists.

€1.6bn

**Net New Cash for Asset Allocation
range in 2018**

Responsibility towards all our stakeholders

A number of factors are essential for delivering sustained added value – and they go beyond the numbers. For Candriam, the key to delivering competitive returns is to show Conviction and Responsibility, the values embedded in our name. They apply not only in our dealings with clients, but also in our relationship with employees, the environment and the communities we serve.



THE ASSET OWNER'S PERSPECTIVE

Interview - IRCANTEC

Responsible Investment is a top priority for many pension funds, especially in France, where the topic has been regularly in the spotlight. Two representatives of pension fund Ircantec, Luc Prayssac, a board member, and Laetitia Tankwe, an adviser to its president and board member of the United Nations Principles for Responsible investment (UN PRI), discuss the issues they face and what they expect from their asset managers, including Candriam.

Could you give an overview of Ircantec?

Luc Prayssac: Ircantec operates a pension scheme, complementary to the state pension, for people working for central and local government, on a contractual basis, but who are not directly employed by the government. It also covers hospital staff and elected local officials. We receive around €3 billion a year in contributions and pay out around €2.6 billion. The difference goes into our reserves, which stand at €11 billion and are invested – €4 billion in equities, €6 billion in bonds and €1 billion in real estate – in a socially responsible way.

How long has Ircantec been involved in responsible investing, and what is your approach?

Laetitia Tankwe: Ircantec made a policy decision for responsible investing 10 years ago and has taken this forward by adopting an SRI Charter, exercising voting rights in the companies where we invest, and by being proactive at shareholder and asset manager meetings. In terms of engagement, we focus on a company's performance in three areas in particular – human rights, the energy/ecology transition and any potential tax evasion. All these areas are then monitored by Ircantec's administrators.

What is the basis of your investment decisions?

LP: If we invest badly today, it will have an impact on future generations. And as we are a pension fund, this inter-generational aspect is part of our DNA and is key to our decisions. However, we must also be vigilant about the content and impact of our investments.

LT: As our investment decisions are guided by our SRI Charter, which is fundamental for us, we look to work with asset managers whose approach is aligned with that charter. That means they have to deliver returns – and share our values.

The Candriam approach: Dedication to clients

Meeting the needs of our clients is the overwhelming priority at Candriam. Our aim is to build long-term relationships based on the company's two guiding principles – Conviction and Responsibility – which are embedded in our brand name, Candriam being the acronym of **Conviction AND Responsibility In Asset Management**. These principles root our fundamental beliefs in delivering trust, transparency and performance – all of which are spelled out, in black and white, in our Client Charter.

We strive to meet our commitments to clients in a number of different ways. Our starting point is to ensure that our advice, products and services are of the highest quality, and that they are tailored to the specific need of each client. For example, many of the companies we serve are operating in the insurance sector. To develop solutions that are specifically adapted to their requirements, Candriam has recruited numerous experts in the insurance field, ensuring that clients receive the highest possible level of service.

At the same time, we aim to generate Alpha across a diversified range of product offerings, with a particular investment focus on creating long-term term value. In 2018, 42.2% of Candriam's funds received 4 or 5 stars from Morningstar, an increase of 3.4% on 2017. Drawing on our in-depth knowledge of financial markets over more than two decades, we seek to continuously improve our investment

strategies and deliver competitive returns across different market cycles. Despite the volatility witnessed in the second half of 2018, for example, Candriam's Global and European high yield and equity market neutral strategies succeeded in delivering excess returns to clients, underlining the company's expertise in these fields.

As recent demand has evolved in a variety of markets, Candriam has pursued a policy of diversification and strengthening of our product offering, notably in the areas of real estate, risk arbitrage and thematic equities. While the acquisition of Tristan Capital Partners enabled Candriam to offer a product in the real estate sector, investment in a far larger range of illiquid assets is possible through the boutique solutions available from our parent company, New York Life.

Along with diversification, Candriam is also actively harnessing the power of digital technology – for the benefit of clients/prospects and the improvement of its internal operations. Externally, three major projects are currently underway, led by the introduction on candriam.com of Report Builder, a tool that enables users to create their own customised fund reports. A range of information, such as NAVs, fund returns and fund composition can be downloaded, while users can also get access to a registration system, enabling them to receive updated versions of the report. Separately, a new

We aim to ensure that our advice, products and services are of the highest quality.

improved version of the Candriam extranet was launched in 2018 to provide one of our major distributors with an even greater depth of content, while the Candriam Robo Investment Simulator was announced in 2019 for distributors and investors.

Internally, Candriam is continuing its digital transformation by deploying new front-office tools to enhance our investment capabilities, while also drawing on Big Data and Artificial Intelligence to further improve Alpha generation. A Robotics Process Automation project with IBM in 2019, for example, will see software robots take over high-volume, mission-critical rule-based manual tasks that are time-consuming and sensitive to human error. In addition to the projects already underway, Candriam is aware of the need to seek out future opportunities. A one-day event was organised in 2018 with a group of FinTech companies to review its current digital initiatives and to discuss its transformation goals, with a view to forming potential partnerships.

Renato Guerriero, Global Head of Distribution
“Digital is a tool to enhance the client experience – with on-boarding or reporting, for example – and an opportunity to innovate across our sales value chain.”

89% of institutional investors and 83% of distributors in Europe consider their relationship with Candriam as ‘good’ or ‘excellent’. Client survey 2017



Effective risk management

A crucial element in this activity is Candriam's robust approach to risk management, which is dealt with by an independent, dedicated department that supervises every step in the investment process. Staffed by more than 25 experienced risk professionals, their task is both to monitor compliance with constraints and objectives, and to manage the various credit, market, liquidity, regulatory and operational risks.

At a practical level, responding to the needs of our clients also involves a physical presence. Candriam has a network of client relationship managers across Europe, the US and the Middle East, all of whom understand the specific requirements of local investors. These personal contacts are complemented by a regular flow of timely, relevant and transparent information to all company's stakeholders. Candriam also prides itself on being able to provide tailored solutions for specific customer requirements; for example, in terms of a specific asset class or financial objective, or an exclusion policy for a new portfolio. Client surveys also provide a valuable tool for providing feedback and ensuring that we continue to meet expectations. The 2017 survey found that 93% of Candriam clients would recommend the company to other investors. Confidence among stakeholders in Candriam's approach to asset investment also comes from international standards bodies. For the fourth year in a row, Candriam received Type 2 certification in 2018 for the International Standard for Assurance Engagements (ISAE) 3402, which certifies the adequacy of an organisation's internal controls from a financial reporting perspective.

A role for advocacy

Our ability to meet the needs of clients and to communicate effectively is particularly important as Environmental, Social and Governance factors become ever more mainstream in the world of asset management. As a leading European player in ESG investment, Candriam is actively encouraging this trend in numerous ways.



For our clients and the investment community at large, Candriam seeks to educate and inform people about responsible investing through presentations (including our ESG Masterclass sessions), research papers and a variety of digital media platforms. A 2018 research study, 'Is There Any Green Under the Hood?', focused on sustainability and the various issues surrounding electric vehicle.⁽¹⁾ We also put the case for ESG at specific industry events in Europe and the United States – either by hosting, partnering, or providing keynote speakers, or in some cases a combination of all three. In addition, the company plays its part in a number of European industry forums in the field of investment compliance. At separate events, Candriam gave presentations to representatives of OECD countries and to the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union.

(1) <https://www.candriam.co.uk/en/professional/market-insights/sri-publications/is-there-any-green-under-the-hood-energy-transition-metals-summary/>

Support for education

We also seek to teach a wider audience about ESG through the development of the Candriam Academy and our financial support for specific programmes in tertiary education. More than 1,300 people have taken the free-to-access online course on responsible investing at the Candriam Academy since it was launched in 2017. By the end of 2018, more than 2,835 hours of training had been completed by academy members. Initially available in English, its success among financial intermediaries has since led to the programme being made available in Italy and Germany. In 2019, several new modules will be added to the course, and the Candriam Academy will be made available in the US, Spain, France, Belgium, the Netherlands and Switzerland.

At the same time, Candriam also pursues its advocacy role for ESG factors as an official sponsor of a Management of Sustainable Development Goals MSc. Created by LUMSA, the Catholic University for the study of Law, Economics and Human & Social Sciences in Italy, the course provides training in concepts that comply with the United Nations Agenda 2030 for sustainable development, and Pope Francis's encyclical *Laudato si'*, which focuses on the environment. In 2018, Candriam became an official partner of Vlerick Business School, one of Belgium's top management schools, and is a longstanding partner of the Louvain School of Management. Candriam has also further expanded its existing partnership with the ESSEC Business School in Paris. Candriam is a sponsor of the school's Digital Week competition, which in 2018 saw 79 students on the ESSEC Global MBA programme take part in a brainstorming session on a series of issues chosen by major corporate partners.

Providing a platform for change

As part of its mission to promote sustainability in asset management, Candriam seeks to demonstrate its thought leadership in the field by organising events for the investment community. In 2018, the topic of our 15th Investor Seminar was "Sustainable growth, today's responsibility". Held in London, the event featured presentations from internationally renowned experts on geopolitical, social, macroeconomic and environmental matters.





INTERVIEW

Mohadeseh Abdullahi

Credit Analyst for High Yield & Credit Arbitrage

The Candriam Graduate Programme: My experience

I joined in January 2018, but had spent six months with Candriam in 2017 as part of my Masters in Environmental Technology at Imperial College London. I was doing a thesis on the case for Impact Investing in Europe, and Candriam gave me the chance to research this area with a view to developing a product. So, working between London and Paris, I became familiar with Candriam's history in sustainability and products in ESG. I chose to return because the programme is a chance to learn and, in my final rotation, to re-join the private equity Impact Fund and see it through to the launch – which is a truly unique opportunity. Investing in social and environmental projects on the ground is where my passion lies. Learning from industry professionals with over 20 years' expertise in their field has been a great experience. I also enjoy being a part of such diverse teams from ESG to High Yield. The level of exposure and responsibility on each rotation you do is highly rewarding. People support you and trust you on the Candriam programme – and I would definitely recommend it to others.

Building a committed team and creating an outstanding inclusive company

Together with the trust of our clients, our employees are the key asset of Candriam, its driving force, and we recognise that enabling them to fulfil their potential in a positive work environment is essential for the company's continued success. Our approach is not only to provide the best working environment and career development opportunities, along with appropriate rewards, but also to appreciate people's achievements, and to foster diversity and inclusion. By doing so, Candriam has been able to build lasting relationships with its employees. This translates into loyal teams and a low turnover rate: the average length of service among them is 9 years – a figure that rises to 13 years for our senior managers. A competitive advantage for Candriam, such levels of stability are also particularly valuable assets for the long-term relationships we intend to build with our clients.

With more than 560 employees serving clients in over 20 countries, the key to building a good relationship with staff is to share common aims, along with our company's two core values of Conviction and Responsibility. In particular, Candriam promotes four behaviours among its employees that reflect those values: respect for others, engagement with our client-centric approach, anti-

ipation that leads to innovation, and teamwork. These behaviours apply to the way we interact with our colleagues and clients alike. By showing responsibility in the way we relate to other people, and by demonstrating conviction in our work, Candriam has created a company culture where employees can thrive.

Professional development

To help our people realise their true potential, Candriam invests in the development of staff throughout their careers, starting from their initial onboarding process when joining the company. While training has a leading role to play, development also encompasses areas such as internal mobility, mentoring, peer-to-peer communication between colleagues, experience in the field, and regular feedback from management. Our recruitment policy covers the full range of talent – from experienced industry professionals to the young people on our university graduate scheme. We also offer internships and work-study programmes for graduates as a potential route to a career with Candriam, all of which are regularly promoted in online media platforms and job fairs.

OUR COMMITMENTS/Toward our staff members

In terms of training, the company provides employees with a combination of dedicated programmes and e-learning tools for every level of the organisation. For new hires, Candriam has devised a series of introductory sessions, such as “Discovering Asset Management” and “Discovering Financial Markets and Products.” To help managers improve their people skills, for example, Candriam created in 2018 a Positive Leadership Program for 150 managers across the company, providing them with three full days of training and two hours of personal coaching.

Support for extra qualifications

Studying for professional qualifications is another opportunity for staff to advance their careers – and is actively supported by Candriam. The company finances the tuition costs and provides time off for revision for staff who sit the Chartered Financial Analyst diploma exams. Candriam staff have also gained their Certificate in Quantitative Finance (CFQ) and risk management diplomas (RFM and PRMIA) while at the company.

All staff are encouraged to take ownership of their learning needs through our Learning Management System which provides access to our full training catalogue. They are also given one-to-one support through the Performance Development Process (PDP), an evaluation process that provides a regular assessment of staff performance. PDP is both an opportunity for dialogue between a staff member and their manager, and a chance to provide an employee with feedback on their strengths and areas for potential improvement. For those taking part in our two-year graduate scheme, training takes the form of specific courses, mentoring and practical experience on the job at our offices in Europe. Graduates are given a comprehensive overview of our asset management activities, spending time on rotation in three different business units and different countries – while also receiving support for language learning. By investing in talented young people, Candriam is help-

ing to build a new generation of skilled individuals to take the company forward. Four graduates joined the company from university in 2018, compared to three in 2017.

Encouraging diversity

Along with the value of continuous career development, Candriam also places great importance on diversity – in terms of age, gender, disability, nationality and culture – and being a truly inclusive employer. Diversity reflects our values as a company and is vital if we are to meet various needs of our clients in market conditions that are prone to rapid change. Today, more than 30 different nationalities are represented among our staff.

In terms of gender balance reporting, Candriam publishes annual figures, such as length of service, staff turnover and the percentage of new recruits, for both men and women. Providing equal opportunities for men and women within the company is a fundamental principle of our Human Resources policy.

**Candriam has created
a company culture where
employees can thrive.**

Creating a unique working environment

Candriam's commitment to being a responsible employer covers a number of other important areas from a staff perspective. We ensure that our employees' financial rewards are based on a responsible assessment of their performance, and that they are able to achieve a satisfactory work-life balance.

A Work from Home policy has been introduced to our two largest offices, in Brussels and Paris, while staff views are represented by employee councils in Brussels, Paris and Luxembourg.

At Candriam, we firmly believe in creating a positive working environment for our employees. To provide that, we take into consideration a wide variety of factors that affect how people experience the working day and how they can work together more effectively. In a rapidly growing company, it is important to provide opportunities for staff to meet each other, whether as part of a learning process, the recognition of achievement or an informal get-together. In 2018, 21 'Lunch & Learn' sessions were attended by more than 400 employees at Candriam's offices in France, Belgium and Luxembourg. The sessions were a chance to discuss a range of major industry issues, from data security and Artificial Intelligence to cryptocurrencies, and to also highlight the successes achieved by our teams.

To underline the importance we attach to our employees' working conditions, Candriam organises a 'well-being at work week.' In 2018, this included the provision of workshops on a range of health topics – such as breathing exercises, nutritional advice and managing your personal energy levels – along with first-aid courses. Seated massage sessions and fruit juices were delivered for employees at their desks, in addition to bowls of fruit provided weekly in the 'coffee corners' of the company's offices.

However, building effective working relationships in a growing company is also about giving employees the chance to be with each other in a less formal setting. Whether it was after-work drinks, enjoying a summer barbecue, or watching World Cup soccer matches on TV together, 2018 at Candriam provided our staff with plenty of those opportunities, including the traditional end-of-year party and a special two-day event in September for all our employees to celebrate the company's 20th anniversary. Another staple of the company diary is Candriam's internal newsletter, Connection, which gives pride of place to our employees' stories – from their activities at work.

7,500+ hours
of training provided by
Candriam for its employees
every year

€1,500+ Average spent
on career development
per employee in 2018

Responsibility towards the environment

The importance of sustainable development and respect for the environment are at the very heart of our business. Both these considerations are an integral part of the decision-making process for asset management across all our lines of business. However, they are also an integral part of the way Candriam operates internally as an organisation. We are continuously striving to reduce our carbon footprint in the buildings we use, the natural resources that our offices consume, and the impact of our employees on the move.

To help us improve our environmental performance, Candriam has been partnered since 2015 by Trucost, an S&P company that specialises in measuring resource use and carbon emissions. By recording our consumption of electricity, natural gas, paper and fuel for the company car fleet, along with the cost of business travel, Trucost has been able to provide an assessment of our carbon footprint. As Candriam considers transparency to be part of its responsibility towards the environment, this information has been made publicly available in the company's CSR reports. In addition to its assessment role, Trucost has also advised Candriam on ways to improve further.

Smarter buildings, smaller carbon footprints

To reduce the environmental impact of our premises, we look closely at both the buildings themselves and the use of resources in our offices. From a building perspective, we apply strict environmental criteria throughout the selection process when we are considering new premises. Our building in Luxembourg, for example, was the first in the Grand Duchy to be awarded HQE certification for its low energy consumption, rainwater harvesting for sanitary use, and waste sorting. By being located in an HQE building in Brussels and Paris, the company has been able to significantly reduce its energy consumption for heating, air conditioning and lighting.

We strive to reduce the carbon footprint of our buildings and our use of resources.

Energy efficiency is an objective for Candriam at all its locations. This can include the use of 'smart' lighting and air conditioning systems, which are switched off when they are not required, and PC/centralised printer networks that switch to 'sleep' mode when not in use. Total paper consumption has meanwhile fallen since 2015 with the introduction of double-sided printing as standard and controlling access to printers/copiers through employee badges.

We also take a digital approach to publications and other documents, and when printed versions are needed, they are produced with recycled paper. Paper consumption has also been reduced by providing increasing numbers of employees with tablets, removing the need for printing.

Talking, rather than travelling

Since travel is a major source of greenhouse gases, Candriam has taken a series of initiatives to reduce our contribution to those emissions. While the company has doubled in size over the last five years, we have succeeded in reducing the CO₂ emissions of Candriam's vehicle fleet over this period. We encourage our employees to use public transport and subsidise the cost when they do so for travel to and from work. Similarly, we provide incentives for employees in Brussels and Paris to cycle to work. The company has also sought to reduce the need for business travel by introducing a Unified Collaboration & Communication programme (UCC) – comprising videoconferencing, webex facilities, and conference call systems – in our offices. This programme was first implemented in our three main offices and is currently being rolled out at all our locations.

19%
decrease in vehicle
emissions by the Candriam
fleet since 2011

52%
reduction in carbon footprint
of paper consumption
since 2014 (7.2 tCO₂/e > 3.5 tCO₂/e)



Responsibility towards communities

As part of its broader sense of responsibility, Candriam provides support to communities where it operates and encourages employees to take part in a range of charitable activities. Instead of sending year-end gifts to clients, we use those funds to assist the less fortunate in society. The main driver of our community action is the company's 'Helping Those Who Help' HTWH programme, which has been providing funding for a variety of charities that are proposed by company employees since 2001. In 2018, the programme was extended to include funding for a variety of charities where Candriam staff did not have a direct involvement and highlighted the need for those organisations to have a commitment to social inclusion.

Helping Those Who Help programme

Typically, the charities and community associations we support are volunteer-based and have limited access to other sources of funding. The programme's activities are managed by the HTWH Monitoring Committee, which comprises a group of employees along with one Executive Committee member. Every year, the committee meets to select the various charities to receive funding.

While Candriam is largely a European organisation, the company has a truly global outlook when it comes to people in need. Charities supported by the programme have ranged from those helping children in developing countries in Africa and Asia with their education and healthcare – including the rebuilding of an orphanage in Nepal after it was hit by an earthquake – to wheelchair users and the blind/partially sighted in Belgium.

The programme is now part of the **Candriam Institute for Sustainable Development**, which was launched in 2017 and is partly funded by a donation of up to 10% of Candriam SRI Sicav funds management fees. The Institute's twin aims are to encourage research and education in sustainable development and ESG, and to support projects for social inclusion. In 2018, educational funding included sponsorship of an academic Chair in sustainable development and ESG, along with a Masters in Management of Sustainable Development Goals at LUMSA in Italy. Meanwhile, our Voluntary Service Day enabled every Candriam employee to spend a day helping a charity with a focus on social inclusion.

€100,000

Donated to charities during the 2018 Helping Those Who Help programme

More than 70 charities supported by Helping Those Who Help since its launch in 2001

Supporting local people, investing in success

Aside from 'Helping Those Who Help', Candriam employees regularly take part in numerous local community activities and fundraising events – ranging from national telethons to local sports events. We are proud sponsors of the Belgian Royal Hockey Association, which runs the sport from grassroots to Olympic level. That support bore fruit when the national team became world champions in December 2018, a year after our sponsorship began. Meanwhile, for a fifth year in a row, more than 20 staff from our Paris office took part in France's AFM-Téléthon – running some 600 laps of the Emile Anthoine Stadium to raise over €5,500 in December 2018 for research into rare diseases.

Staff at our offices in Belgium and France have also helped to provide food for those in need, particularly during the winter period. Since 1999, Candriam employees have been regularly involved in the 'Shoe-box' campaign in Belgium at Christmas. In 2018, our staff volunteers helped to fill more than 40 shoeboxes – a company record – with up to 10 food and other items (alcohol-free, non-perishable and easy-to-open) and a greetings card. For its part, Candriam donated 20 pine trees to help brighten the homes of disadvantaged families.

In its bid to contribute to equal rights and opportunities, and confirm its status as a responsible employer, Candriam continues to raise awareness of disability in the workplace.

In 2018, Candriam continued its partnership with HandiFormaFinance, getting behind the programme to help disabled job-seekers gain a professional qualification from Paris Nanterre University in "Financial Asset Management for the Middle Office".

For some years now, Candriam France has also had an arrangement with CEDRE, an Argenteuil-based "disabled-friendly" association specialising in collecting and recycling companies' waste (paper, plastic cup, etc-). In 2018, CEDRE had 112 employees including 80% disabled workers.



INTERVIEW

Peggy de Neef

Senior Institutional Client Relationship Manager

A helping hand for charities

For me, Helping Those Who Help, which the company launched in 2001, is a chance for Candriam to support the charities that its employees really identify with. I'm working with 'Fourth World Group – People for People' in the city of Aalst, about 30km from Brussels, which focuses on adults and children in poverty and aims to bring them out of the isolation they so often face. People in poverty – which in some cases goes back four generations – tend to stay at home, and they often lack a proper education, so you have to go and talk to them first. The charity can then help in various ways – providing information about benefits or discounts they may be entitled to, or training schemes they could join, and inviting them to talks by gas and electricity companies on how to lower their bills. For children, there is a weekly playgroup where they play with toys alongside youngsters of all backgrounds, while their parents meet and chat. There is even a 'toy library' where children can borrow toys to play with at home, to save their parents from having to buy toys for their children. By bringing people together, we can improve lives. When you help someone to find work or to move forward in their life in other ways, it's very satisfying.

Sustainable value creation

Candriam's commitment to conviction and responsibility in investing means that its value cannot simply be measured by its balance sheet and the performance of its funds. Our business model is based on making a positive contribution in terms of our people and our financial, social and environmental impacts.



Resources

New hires: 82
Employees: 563
Nationalities: 35
Men: 66%
Women: 34%

International

- 20+ countries covered by Candriam, local licensees and other third-party arrangements
- Candriam has investment management centres in Luxembourg, Brussels, Paris and London, along with teams on the ground in 7 additional locations: NYC, Dubai, CH, NL, DE, IT, ES + commercial coverage in Portugal, Austria, the Nordics, Asia, Latin America and Ireland.

Intellectual

- Candriam Academy
- Candriam Institute for Sustainable Development

Value creation

Mission

- Sustainability
- Engagement
- Partnership on the long term

Activities

- Equities
- Fixed income
- Absolute return strategies
- Advance asset allocation
- Sustainable investment

Strengths

- A clear vision of our role in society: creating long-term value for clients and a positive societal impact
- Constant care and benevolence
- Loyalty to clients, employees and all other stakeholders
- New York Life: a reliable and uniquely-rated shareholder

Value chain

- Being there for our customers, long-term trusted partnerships
- Rewarding talent in an effective organisation
- Contributing to more responsible finance
- Promoting sustainable development

Results

Human

- Hours of training provided for employees: 7,500
- Average spend per employee on training: €1,440

Societal

- EUR 36 billion of assets respecting ESG criteria
- 163 dialogues with issuers about sustainability
- 61% response rate from issuers to questions
- 51% of issuers involved in dialogue said that Candriam's view influenced them
- 775 ordinary or emergency general meetings attended

Impact

Human

- Average length of service among teams: 9 years

Innovation

- Product range strengthening:
 - New thematic equity and bond strategies to meet client needs and changing market conditions
 - Acquisition of Tristan Capital Partners to offer illiquid solutions (Real estate)
 - Integration of a risk arbitrage team
 - Acquisition of ABN-AMRO investment solutions' direct management business
- New areas covered by exclusion policies

Societal

- 1,300 Candriam Academy members since launch
- 2,835 hours of Candriam Academy training since launch
- 10% of SRI Sicav management fees donated to social projects

Environmental

- Candriam's SRI funds have carbon footprint 47% below index benchmark
- 11.3% fall in carbon footprint of Candriam's SRI funds in 2018



INTERVIEW

Isabelle Cabie

Global Head of Responsible Development, discusses Candriam's involvement with Environmental, Social and Governance and the future direction of ESG

Candriam: Engaging with impact

What is distinctive about Candriam's approach to ESG investment?

Like other ESG asset managers, we look at a company's management and best practices in terms of corporate social responsibility; but what distinguishes Candriam is that we also analyse its business model in terms of sustainable development in its sector. This includes its impact on climate change, its use of natural resources, its solutions for health and well-being, etc. – which we see as the sustainability challenges of tomorrow. We have based our investment decisions on an equal weighting between these two criteria for 10 years now – and it's a huge differentiator for Candriam.

How important is cooperation with other organisations?

It's clearly very important. We use publicly-available information, but we also contact companies to obtain further details – either on our own or with advocacy groups, NGOs, trade unions, or other bodies. It all depends on the leverage needed and the sensitivity of what we want to discuss. Topics such as a company's cybersecurity, tax and social issues are best tackled as a group, particularly if an NGO has specific expertise in an area that we would like to pursue. By sharing our expertise and resources, we make it harder for companies to remain silent.

How have corporate attitudes to ESG factors changed?

More doors are opening now, as a result of the increasing pressure from the asset management community and NGOs, and there is a better understanding of the ESG challenges. There is also more of a partnership among asset managers and other groups. Two years ago, companies were complaining about having to supply data to every single organisation that requested it. Now, there is a new dynamic and we are better structured, in larger groups, and we focus on the key issues when we talk to companies and we avoid the minor details.

How have ESG factors helped to deliver improvements?

About 10% of the companies with whom we had direct dialogue last year have changed their practices, and we have reviewed whether or not to maintain a company's stock in our portfolio in over 50 other cases. We also use ESG indicators to see if our investments have led to real improvements in sustainability, i.e. better impacts in terms of ESG factors, such as carbon footprints, the health and safety of employees, gender balance and diversity. We know it's difficult to transform companies in the energy sector, for example, but we are looking for a change of strategy from them and a positioning that reflects the energy transition.



What will drive future growth in ESG funds?

Increasing regulation will be a factor, particularly at an EU level with its action plan on sustainable finance, and the publishing of ESG information will become more standardised across the value chain. In turn, this will lead to the mainstreaming of ESG factors and improvements in data collection – which is not as mature today as it is for financial data. But I also think that growth will be driven by the next big challenge: the social impact of a corporate behaviour, the 'S' in ESG, where relatively little information is provided today. Sustainability is not just about reducing CO₂ emissions.

Engagement: Our duty as a responsible investor



At Candriam, we have a duty to engage with companies and advocacy groups in order to enhance our assessment of the ESG risks and opportunities faced by issuers. In turn, we believe that our engagement with corporates, now in its 10th year, can also lead to an improvement in the way they manage their risk/reward decisions. Actively involved in more than 40 collaborative initiatives, Candriam has focused its discussions with companies since 2015 on three areas that we consider to be strategically important over the long-term: the energy transition, fair working conditions and business ethics. Over the past two years, Candriam has also increased its focus on sustainable food as a major trend.

The energy transition

Candriam has worked alone and with other investors to promote the need for major CO₂ emitters in the oil and gas industry to help deliver the energy transition. Through one-to-one dialogues and taking part in the Climate Action 100+ initiative, Candriam helped to drive the agenda for change among emitters, particularly during AGMs. We also renewed our support for the Carbon Disclosure Project, and succeeded in encouraging a number of targeted companies to complete the CDP's questionnaire about their emissions. Such information is important not only for transparency at a sector level, but also for enabling us to better track the carbon footprint of our portfolios and to refine our investment strategies accordingly. At the same time, we also continued to engage with the financial

services industry – resulting, for example, in an improved coal policy at Standard Chartered on phasing out its exposure to coal-related assets and supporting communities in affected areas.

Fair working conditions

Fundamental human rights, along with work-related rights, are still not universally respected at workplaces, with significant variations according to the industry or region. In 2018, Candriam maintained its longstanding support for three programmes led by major international NGOs: the ICCR's Bangladesh Investor and Workforce Disclosure Initiatives, which focus respectively on the country's garment factories and the conditions of millions of workers employed by multinationals and their supply chains, along with the PRI's Labour Practices in the agricultural supply chain.

In addition to our collaborative efforts, Candriam also promotes fair working practices in our dialogues with companies – most often with groups in the consumer goods industry. By engaging with Carrefour, for example, about its handling of a supplier accused of human trafficking, we developed a better understanding of the French group's ESG procedures and the management of its suppliers' list.

Business ethics

As the legal enforcement of business ethics becomes ever more stringent (e.g. the US FCPA, UK Bribery Act, EU settlements, and OECD BEPS programme) and public scrutiny grows ever more intense, the cost of negligence is continuing to rise. The reputational, operational and financial damage that can follow an act of misfeasance can be considerable. To underline our commitment to business ethics, Candriam is taking a leading role in two initiatives organised by the PRI to promote disclosure – on corporate tax responsibility and cybersecurity. By engaging with target companies on an ongoing basis, we can explain why such sensitive information was needed by investors.

Throughout 2018, Candriam also pursued its own dialogues with companies, raising governance issues with EV manufacturer Tesla, for example. After Tesla's announcement of governance changes, we continued to communicate with the company, discussing operational challenges and further risks and opportunities raised by its use of advanced technology.



Engagement: Candriam at the centre of global initiatives

Corporate Tax Responsibility

Candriam is lead investor for 2 corporates targeted by the Corporate Tax Responsibility, an initiative developed by the PRI to promote best practice at a time when business ethics are facing increasing scrutiny and enforcement. Target companies are wary of discussing the issue with investors, fearing that greater transparency could lead to a loss of competitive advantage or to the misinterpreting of the figures. However, in 2018, Candriam was able not only to explain to such companies why further disclosure was needed for investment decisions – but also to suggest routes for improvement that reconciled the needs of both investors and companies.

Workforce Disclosure Initiative

Candriam is among more than 120 investors who share the Workforce Disclosure Initiative's goal of improving data from listed companies on how they manage workers in their direct operations and supply chains. The challenge lies in the difficulties faced by companies to report on data beyond their Tier 1 suppliers – and therefore to influence practices at a wider level. In our conversations with companies, Candriam frequently discusses fair working conditions for employees, covering areas such as compensation, human rights and staff development. In 2018, 90 global firms disclosed to the WDI, whose investors have over \$13 trillion in AUM.

Plastic Solutions Investor Alliance

Plastic pollution of the soil and oceans has become a major concern for the environment and people's health. However plastic is an essential material, and in some cases, is irreplaceable. To address the issue, Candriam has joined forces with 25 other institutional investors to launch the Plastic Solutions Investor Alliance. By signing the Alliance's declaration, investors pledge to engage with consumer goods companies about the threats posed by plastic waste and the search for new solutions. The Alliance's aims are to reduce plastic usage, to improve collection and recycling, and to support the development of sustainable alternatives.



Climate Action 100+

For Climate Action 100+, 2018 proved to be a very positive debut year. Led by investors, including Candriam, the initiative aims to ensure that the 100 gas emitters who account for two-thirds of annual global industrial emissions – plus 60 other companies – are taking the necessary action on climate change. It helped to put scenario analyses and science-based targets at the top of the agenda, including during the 2018 AGM season, when several Climate Action 100+ investors made public statements at annual meetings.⁽¹⁾























(1) For more information, see: <https://www.candriam.co.uk/49639d/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxyvotingannualreview2018.pdf>

Farm Animal Investment Risk and Return (FAIRR)

As the world seeks to feed a growing population with diminishing natural resources, there is a growing acceptance of the need for responsibility in farming. In 2017, Candriam signed up to two initiatives from Farm Animal Investment Risk and Return, an investor network that focuses on the risks and opportunities of intensive livestock production. One initiative seeks to combat the overuse of antibiotics in livestock – a leading cause of antimicrobial resistance in humans. The other aims to promote more sustainable protein sources by encouraging food producers and retailers to diversify away from meat in favour of plant-based protein.

In 2018, Candriam joined the Investor Collaboration on Farm Animal Welfare (BBFAW), which encourages food companies to strengthen their approach to farm animal welfare.



New key collaborative initiatives signed in 2018		ESG
Climate change transition for oil and gas	 	E
BBFAW Investor Collaboration on Farm Animal Welfare	  	ES
PRI Water risks in agricultural supply chains		E
Plastic Solutions Investor Alliance	  	E
UK Living Wage Engagement Campaign	 	S
PRI supported engagement on responsible sourcing of cobalt	 	ES
Corporate Accountability for Digital Rights	 	SG
Investor Statement to EU Policymakers on the future of Corporate Reporting	 	ESG
Investors call on power companies to accelerate decarbonisation and support ambitious climate policy	  	E
Open Letter to index providers on controversial weapons exclusions	 	SG

OUR COMMITMENTS/Global initiatives

Since 2006, as a founding signatory to the UNPRI, we have signed the following statements:

Commitments	ESG	JOINED IN/ SIGNED IN
PRI - Principles for Responsible Investment 	ESG	2006
UNGC Call to Action on anti-corruption  	G	2014
G20 Energy Efficiency Investor Statement   	E	2015
Montreal Carbon Pledge   	E	2015
Paris Pledge for Action   	E	2015
UK Stewardship code 	ESG	2016
Investor Statement on ESG credit ratings 	ESG	2017
Adhesion to Green and Social Bond Principles           	ES	2017
Tobacco-Free Finance Pledge  	S	2018
The investor Agenda 	E	2018
Commitment to support a just transition on climate change 	ESG	2018

The table shows collaborative initiatives active in 2018 but that Candriam had started to support in previous years, their impact and Candriam specific contributions.

COLLABORATIVE INITIATIVES Initiatives for a call to action	ESG	JOINED IN/ SIGNED IN
CDP - Carbon Disclosure Project (incl. Climate Change, Water and Forest programmes)		E 2004
Sustainable Stock Exchanges		ESG 2010
Access to Medicine (AtM)		S 2010
Access to Nutrition		S 2013
Bangladesh Initiative on garment industry		S 2013
Sustainable Palm Oil practices		E 2015
Labour practices in agricultural supply chain		S 2016
Fiduciary Duty in the 21 st Century		ESG 2017
Engagement on antibiotics overuse in livestock supply chains		ES 2017

COLLABORATIVE INITIATIVES Initiatives for a call to action	ESG	JOINED IN/ SIGNED IN
Sustainable Protein Engagement		E 2017
Global Investor Statement on Climate Change		E 2011
Workforce Disclosure Initiative		S 2017
Banking on a Low Carbon Future		E 2017
Engagement on Cybersecurity		SG 2017
Expectations on Corporate Climate Lobbying		E 2017
Decarbonisation Initiative (incl. RE100 & EP100 Engagement)		E 2017
Combating Child Labour in Cocoa Supply Chains		S 2017
Corporate Tax Responsibility		G 2017
Climate Action 100+		E 2017



Olivier Maes
Head of Distribution Belgium

— Effective governance ensures that Candriam makes the right decisions – and is transparent about the impact of those decisions



Lucia Meloni
ESG Analyst