

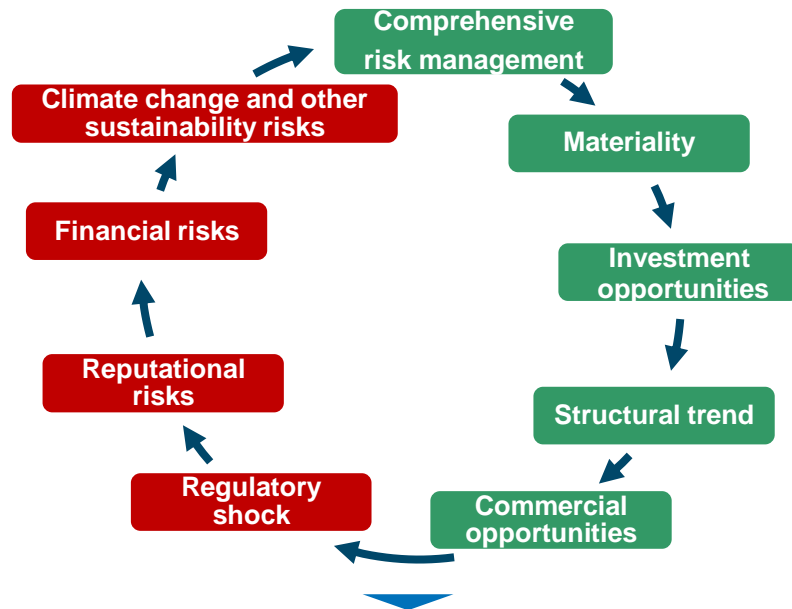
INSURE & INVEST
Asset management solutions for insurers

Emerging Markets and ESG: Friends or foes?

Commercial document intended exclusively for Professional Investors

October 2020

ESG: Opportunities and risks for insurers' investments



Specific challenges in Emerging Markets:
Data availability and reliability; Disclosure and governance standards; Company ownership structures;
Preservation of investment universe; Languages barriers etc.

Emerging Markets and ESG: Friends or foes?


Methodology: Identifying ESG-eligible Emerging Market stocks

MSCI® EM Equities Index

ESG eligible universe

**Components of
broad universe:
about 1,158 equities**

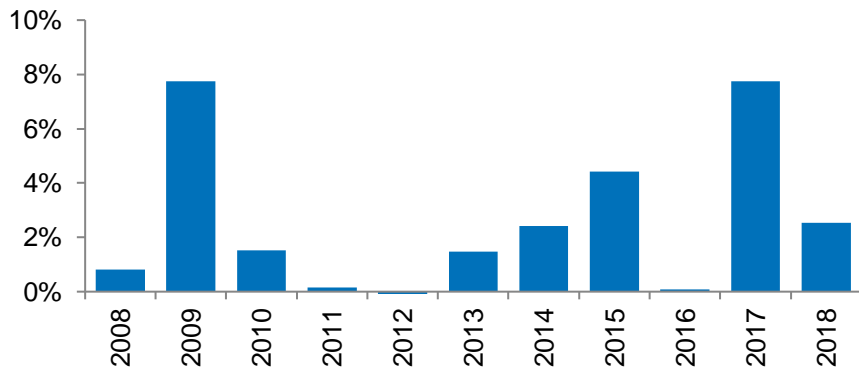
**Approved by
ESG analysts:
about 700 equities**

- 
- ✓ Norms-based analysis
 - ✓ Controversial activities
 - ✓ Governance screening
 - ✓ Exposure to global sustainability trends

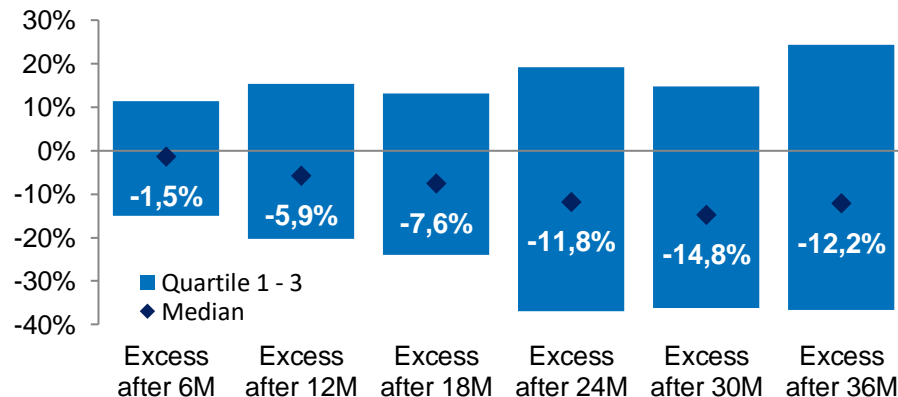
Long-term study from April 2008 to October 2018

Results: Integrating ESG in Emerging Markets creates value

Excess return by year:
ESG-eligible universe versus MSCI® EM
 Excess total gross return, cap-weighted, in USD



ESG-eligible equity performance following internal downgrades
 Gross excess return versus MSCI® EM



Return & Risk: ESG-eligible universe vs MSCI® EM
 Annual average total return, gross, cap-weighted

	ESG-eligible	MSCI® EM
Annual return	6.00%	3.60%
Annual volatility	23.90%	23.40%
Sharpe ratio	0.25	0.15

Sources: Candriam ESG Team, MSCI (Weight) © 2019 MSCI Inc. All rights reserved; Factset Prices (Gross Total Return). Data from April 2008 to October 2018. Past performances of a given financial instrument or index or an investment service, or simulations of past performances, or forecasts of future performances are not reliable indicators of future performances. 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. The MSCI EM Index is mentioned for informational purposes only. The strategy does not consist of replicating this index. The strategy does not consist of replicating this index.

Examples: ESG exclusions help preserve long-term value



Company

- China-based company
- Design, development, production, distribution, installation of Information and Communication Technology-related systems, equipment, terminals

Exclusion rationale

- Screened out during norms-based analysis
- **Governance** issues: **violations** of US export regulations, **bribery allegations** in different countries

- Brazilian multinational corporation
- Metals & mining; Logistics operators
- Largest producer of iron ore and nickel

- **Human Rights** issues (dam collapse and **environmental contamination allegations**)

Material impact

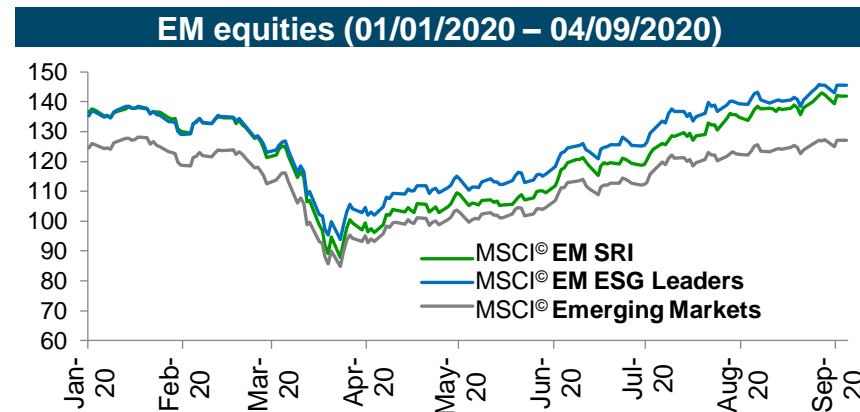
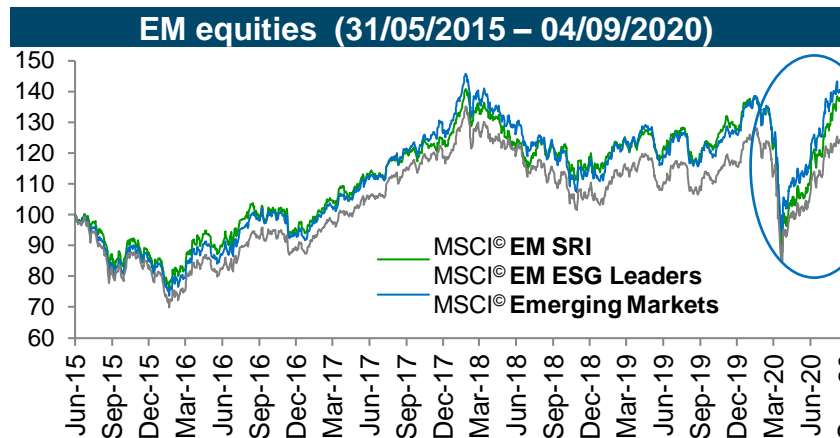


- Once the allegations materialized, the company faced substantial fines - **stock value plummeted by 61%**



- Dam incident 's negative repercussions: legal allegations, fines - **stock value destruction of 24%**

Covid-19: The first large-scale test in a crisis for ESG?



Performance-ranking of 203 ESG Funds in their respective Morningstar categories

01/01/2020 – 12/03/2020

13/02/2020 – 12/03/2020

1 st quartile	42%	39%
2 nd quartile	27%	27%
3 rd quartile	19%	23%
4 th quartile	12%	11%

Sources: Candriam, Morningstar

ESG resilience in the crisis: Understanding the drivers

Role of sector allocation:

- Not simply a matter of “energy or no energy”

Importance of the S-factor:

- Management of human capital
- Management of suppliers

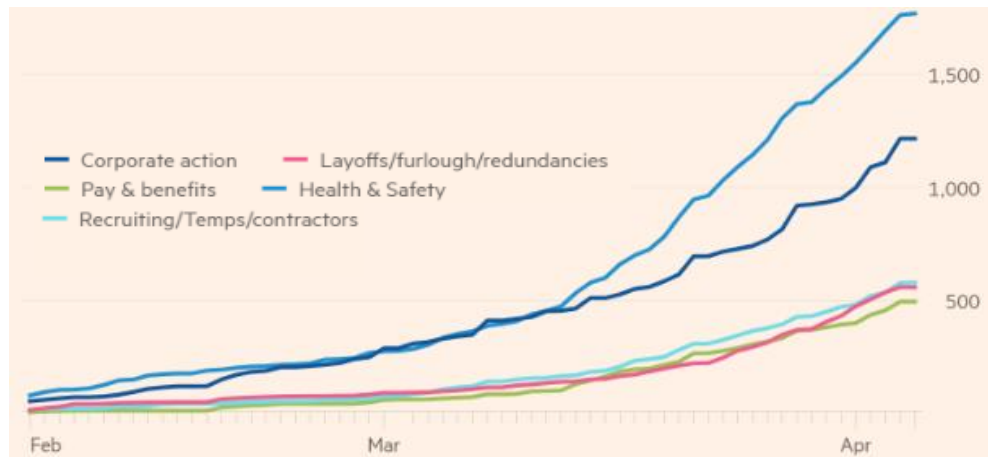
Characteristics of companies with good governance sought after in times of crises:

- Clear, transparent leadership
- Healthy balance sheet
- Financial caution
- Pro-active risk management

Often, better ESG performance can also indicate:

- Agility and adaptability
- Capacity to innovate

Number of press articles about MSCI ACWI companies that mention issues in the management of human capital

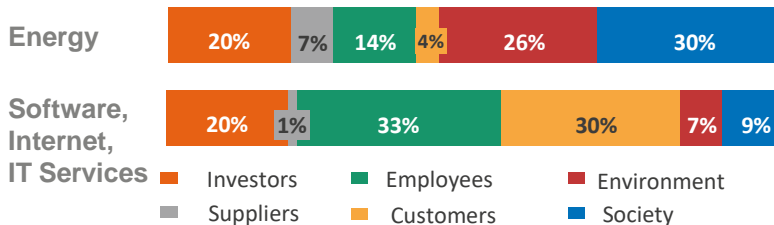


Covid-19 crisis highlights: Importance of stakeholder analysis

The Covid-19-crisis highlights the role of an in-depth stakeholder analysis, which notably reveals the quality of employee and supplier management

- Stakeholder interactions are a source of business risks and opportunities that are sector-specific
- For each sector, the specific challenges and the degree of relevance for each stakeholder are defined
- The capacity of each company to manage the sector-specific relationships with their stakeholders is assessed

Sample stakeholder models



Of particular importance for EM equities: Governance screening

EM companies' exposure to poor standards of corporate governance can impact businesses in a negative way. Company's management is key to guarantee the future of the company and to delivering sustainable performance.

We believe it is important particular attention to the corporate governance policies, structures and practice:

- The accountability and structure of the Board of directors
- The remuneration system
- The transparency and integrity of financial statements & Independence of the audit process
- The shareholder rights

Potential exclusions:

- Companies with the lowest corporate governance standards among their sector's peers
- Companies whose controlling shareholder (>50% of capital) is a state

Country analysis: Human, natural, social and economic assets



Human Capital

Stock of human productivity potential of individual people based on their knowledge, skills, labor and health



Natural Capital

Stock of natural resources in the form of renewable and non-renewable resources and in the form of environmental services/processes



Social Capital

Refers to social interactions:
Stocks of trust, norms and institutions that people can rely on to solve common problems and create social cohesion



Economic Capital

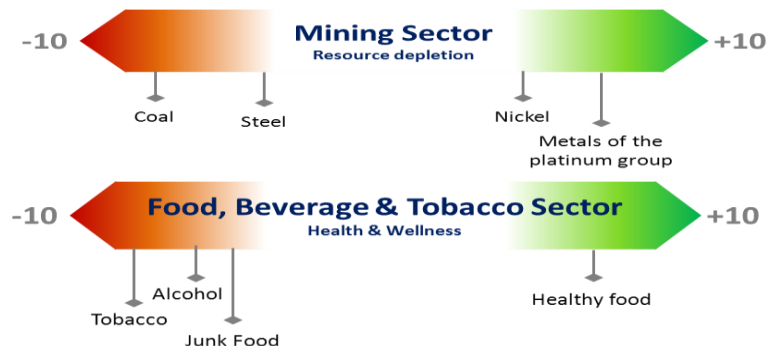
Sustainability of the economic fundamentals
"To what extent is the current level of economic activity viable?"

Covid-19 crisis highlights: Importance of global trend analysis

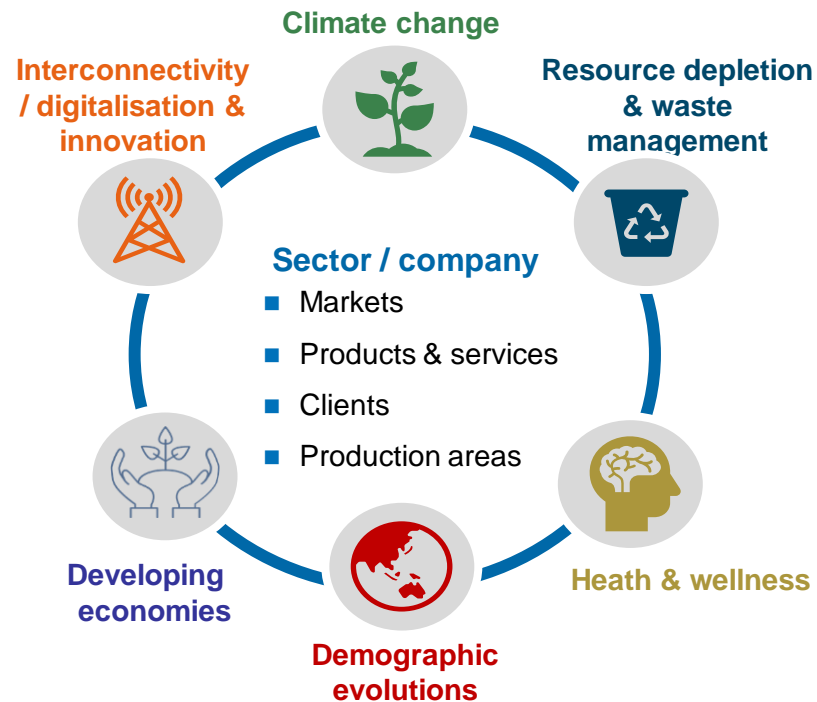
Companies that are exposed to global sustainability trends, show particular resilience ,

- Beyond stakeholder analysis: Trends analysis contributes to understanding which global sustainability trends a company is exposed to and what risks and opportunities arise from that
- 6 global sustainability trends that:
 - Influence companies' business environment
 - Shape future market challenges and long-term growth

Sample trend exposure models

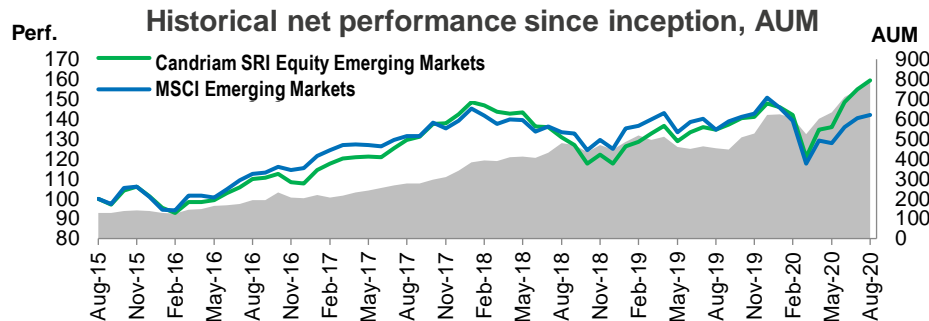


Source: Candriam



Our expertise: Candriam SRI Emerging Markets

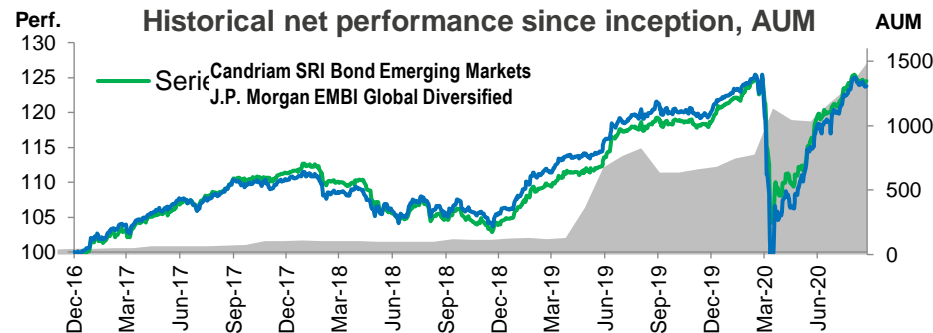
Candriam SRI Equity Emerging Markets



Cumulative net performance	YTD	1 Y	3 Y	5 Y	10 Y	Since launch
Candriam SRI Equity Emerging Markets I Cap USD	7.77%	18.38%	22.97%	59.29%	88.01%	117.49%
MSCI Emerging Markets (NR)®	-5.72%	5.42%	8.11%	41.89%	53.69%	78.64%
Morningstar category percentile (EAA Fund Global EM Equity)*	4th	4th	5th	11th	6th	-
Morningstar rating*	3Y: ★★★★★ / 5Y: ★★★★★ / Overall: ★★★★★					

- Carbon footprint: tCO₂-eq/Mio EUR Invested: -63% vs. index
- Carbon footprint: tCO₂-eq/Mio EUR Revenue: -52% vs. index

Candriam SRI Bond Emerging Markets



Cumulative net performance	YTD	1 Y	3 Y	Since launch
Candriam SRI Bond Emerging Markets I Cap USD	2.82%	4.95%	13.55%	24.52%
J.P. Morgan EMBI Global Diversified (TR)®	1.37%	2.73%	12.59%	23.82%
Morningstar category percentile (EAA Fund Global Emerging Markets Bond)	23h	27th	13th	-
Morningstar rating	Overall: ★★★★★			

*Morningstar, as of 31/07/2020. Sources: Bloomberg®, Candriam. As of 31 August 2020. The funds are actively managed and the investment approach implies reference to each fund's respective benchmark. Past performance is no guarantee of future results and is not constant over time. © 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. The quality of the award won by the UCI or the management company depends on the quality of the issuing institution and the award does not guarantee the future results of the UCI or management company.

Your contacts: Dedicated experts at your service



Matthieu David

Head of Italian Branch

Global Head of Financial Institutions and Partnerships, Sales & Distribution

Phone: +39 02 31 82 83 62

E-mail: matthieu.david@candriam.com



Emanuele Colombo

Deputy Head of Italian Branch

Phone: +39 02 31 82 83 64

E-mail: emanuele.colombo@candriam.com



Marie Niemczyk

Head of Insurance Relations

Phone: +33 1 53 93 42 62

E-mail: marie.niemczyk@candriam.com



Paolo Stefani

Senior Relationship Manager

Phone: +39

E-mail:

Important Disclosure

This document 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 performances of a given financial instrument or index or an investment service, or simulations of past performances, or forecasts of future performances are not reliable indicators of future performances. 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.

The present document does not constitute investment research as defined by Article 36, paragraph 1 of the Commission delegated regulation (EU) 2017/565. Candriam stresses that this information has not been prepared in compliance with the legal provisions promoting independent investment research, and that it is not subject to any restriction prohibiting the execution of transactions prior to the dissemination of investment research.

Candriam consistently recommends investors to consult via our website 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. This information is available either in English or in local languages for each country where the fund's marketing is approved.

Specific information for Swiss investors: The appointed representative and paying agent in Switzerland is RBC Investors Services Bank S.A., Esch-sur-Alzette, Zürich branch, Bleicherweg 7, CH-8027 Zurich. 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 Switzerland.

CLIENT RELATION
OFFICES

AMSTERDAM
DUBAI
FRANKFURT
GENEVA
ZURICH
MADRID
MILAN
NEW YORK

MANAGEMENT
CENTERS

LUXEMBOURG
BRUSSELS
PARIS
LONDON