



TNFD report

Candriam

2024 report
20/12/2024



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1. Governance

Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities

A. Board oversight of nature-related dependencies, impact, risk and opportunities

Candriam operates under a comprehensive governance structure, which is crucial to our oversight functions. The General Meeting of Shareholders holds the broadest powers, overseeing significant corporate actions. These include the approval of annual accounts, appointment of directors and managers and amendments to the company's objectives or form.

The Board of Directors (BoD) is the governing body responsible for guiding our strategy and general policy, management control, risk monitoring and shareholders relations. It ensures that Candriam develops and executes a comprehensive ESG investment and corporate sustainability strategy. In this context the BoD is responsible for validating the relevant critical policies.

The BoD is supported by the following committees:

The Board of Management (BoM) – meets monthly and is our key decision-making body on strategic issues including ESG investments and corporate sustainability. It examines and approves relevant policies governing the execution of Candriam's strategy and activities, including those covering sustainability risks, climate change and social and human rights.

The Group Strategic Committee (GSC) – convenes twice a month to make strategic decisions and manage Candriam's financial situation. The committee sets our strategy for sustainable investing, covering investment Candriam's Governance Framework. approach, product and commercial positioning and corporate sustainability. The GSC also hosts sustainability focus sessions, supported by Candriam's ESG and CSR experts. It oversees the due diligence approach for climate and human rights risks across the value chain, including the development and review of appropriate practices. **The GSC has reviewed and validated the Biodiversity policy published in October 2024.**

The Executive Committee – meets quarterly. It hosts cross-functional discussions around the implementation of Candriam's strategic roadmap (as defined by the GSC/BoM) and is responsible for the follow-up across business units of operational decisions.

From 2024 onwards dedicated ESG and CSR sessions are foreseen to follow up on the cross-company implementation of the strategic ESG and CSR roadmaps. The Remuneration Committee – convenes annually. The committee ensures that Candriam's remuneration policy supports its business strategy and, where appropriate, the strategy of the managed portfolios (funds and mandates). The Local Management Committees – meet quarterly in each branch and in Luxembourg. In the Belgian branch, they meet monthly and in the French branch, they meet every two months.

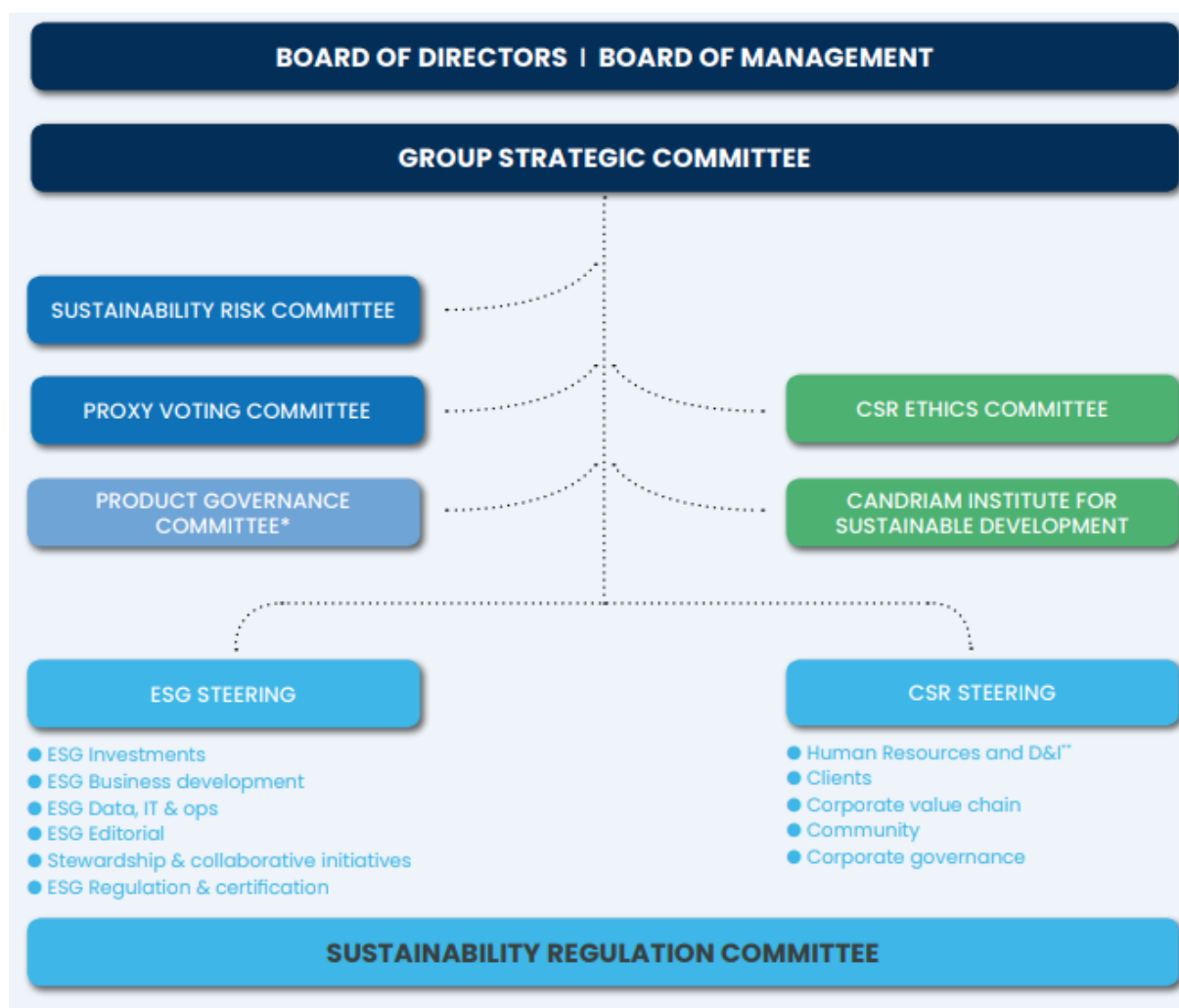


Figure 1 : Sustainability linked governance at Candriam

B. Management's role in assessing and managing climate- and nature-related impacts, dependencies, risks and opportunities.

Candriam's ESG team is composed of 39 people, directly tasked with implementing the company's sustainable investment approach. Our ESG approach is guided and overseen by several strategic committees.

Firstly, the **Sustainability Risk Committee (SRC)**, which oversees and steers the management of extra-financial risk in Candriam's investment activities. The SRC is also responsible for approving the ESG processes and framework for funds and mandates. **It assesses and monitors sustainability risks and negative sustainability impacts including climate change and social and human rights risks.** This evaluation is used to define sustainability-linked investment restrictions that can apply to specific investment strategies or be deployed company-wide. The SRC also monitors the implementation of internal controls in relation with ESG-linked compliance rules and potential breaches, as well as engagement action plans.

Secondly, the **Proxy Voting Committee**, which provides strategic guidance on our proxy voting approach and monitors Candriam's voting policy. Product strategy including ESG characteristics of products/services are considered via Candriam's regular Product Governance process in the (Strategic) Client Solutions and Product Range committees

The **ESG Steering Committee** monitors the implementation of the strategic ESG roadmap and consists of investment, operational, IT and regulatory team workstreams.

The **CSR Steering Committee** coordinates the implementation of the CSR roadmap and CSR reporting in our own operations across staff, clients, operational value chain, governance and the community. The CSR Ethics Committee assesses and monitors human rights risks related to Candriam's operations, including human resources (HR) and suppliers. It oversees the due diligence process for human rights within Candriam's operations and follows up on issues flagged by operational, procurement or risk teams or via the compliance whistleblowing procedure.

Finally, the **Sustainability Regulations Committee** oversees the follow-up of ESG/CSR regulations and coordinates the implementation of the sustainability regulatory roadmap.

Some governance changes have been implemented from January 2024 onward to streamline the implementation of our sustainability strategy. Notably, the Candriam Executive Committee will hold CSR and ESG business reviews and steering sessions to ensure follow-up on the implementation of the strategic ESG and CSR roadmaps.

C. Policies, oversight and engagement for human rights in relation to nature, indigenous peoples and local communities.

We adhere to ethical behaviour across all our operations and comply with established regulations through the implementation of specific policies and charters. These include a compliance charter and policy, a client charter, a code of ethics and a supplier charter. For detailed information about our client charter, please see the 'Long-term Relationships with Clients' chapter of our CSR report.

In 2023, we published our first **Human Rights Policy**, which describes the policies and procedures implemented at a corporate level to combat all forms of modern slavery, human trafficking and child labour. The procedures also cover our work to combat various forms of discrimination and violence and establish expectations for good working conditions, equal opportunities and equal treatment for employees within our supply chain. At the investment level, the policy describes how Candriam prevents, mitigates and remediates human rights risks. Our proprietary ESG framework excludes risky issuers related to human rights from investments. Post-investment, Candriam has a process to monitor human rights risks and determine the potential and/or actual actions to be taken in case of materialisation. Engagement and voting are also used to address negative outcomes on human rights by supporting and/or influencing the issuers' practices.

Additionally, we disclose our ESG promotion and influence activities, such as industry association memberships and roles, and visibility over our financial metrics and taxation. This commitment to transparency underscores our dedication to accountability and reinforces our commitment to ethical practices across our entire organisation.

2. Strategy

Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.

A. Describe the nature-related impacts, dependencies, risks and opportunities the organisation has identified over the short, medium and long term

Candriam, as a financial institution providing a range of financial services, acknowledges that its operational footprint and activities have an impact on biodiversity. As an investment company, **most of our biodiversity impacts are linked to our investments.**

Operational impacts

As of December 31, 2023, the company employs 612 staff members and operates from 4 investment management offices located in London, Paris, Luxembourg, and Brussels, as well as 8 client relation offices in cities including Amsterdam, Dubai, Frankfurt, New York, Geneva, Madrid, Milan, and Zurich. The analysis of Candriam's local environmental footprint primarily focuses on the investment management offices, where the majority of activities take place. The client relation offices are considered negligible in this context.

Local Footprint: A mapping of Candriam's investment management offices reveals that all four are situated in urban areas with low exposure to biodiversity risks. However, the Brussels office is an exception due to the significant water-related risks in the region, such as water stress and drought vulnerability.

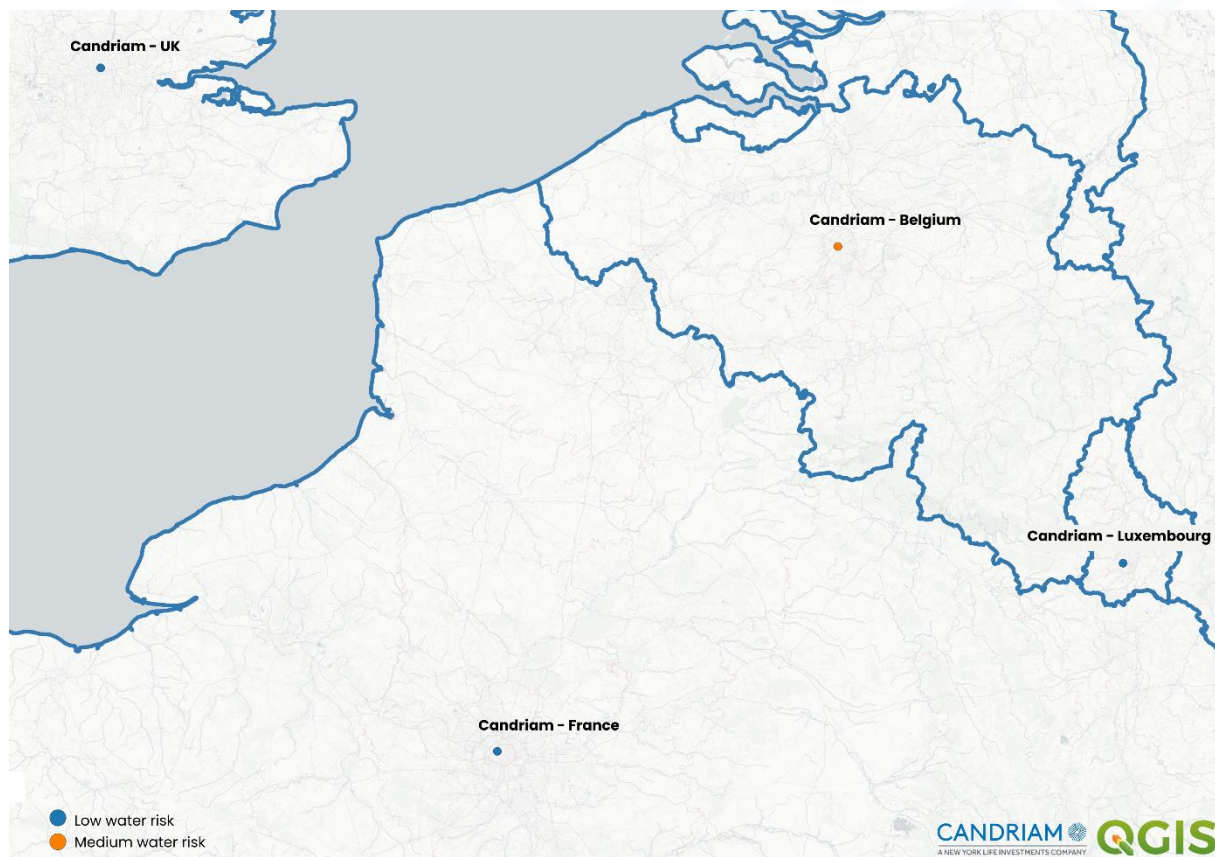


Figure 2 : Candriam's operational offices locations and exposition to water risk, Candriam, WRI

While Candriam’s global biodiversity footprint has not yet been fully quantified, preliminary estimates based on Carbon4 Finance BIA-GBS tool, indicate that the direct operations’ primary environmental impact stems from greenhouse gas emissions (Figure 19).

Investment-linked impacts

Like the rest of the financial sector, our most significant biodiversity-related impacts can be attributed to our investments. These impacts, considered “scope 3”, are indirect but they should be prioritized in Candriam's efforts to mitigate biodiversity risks and negative impacts.

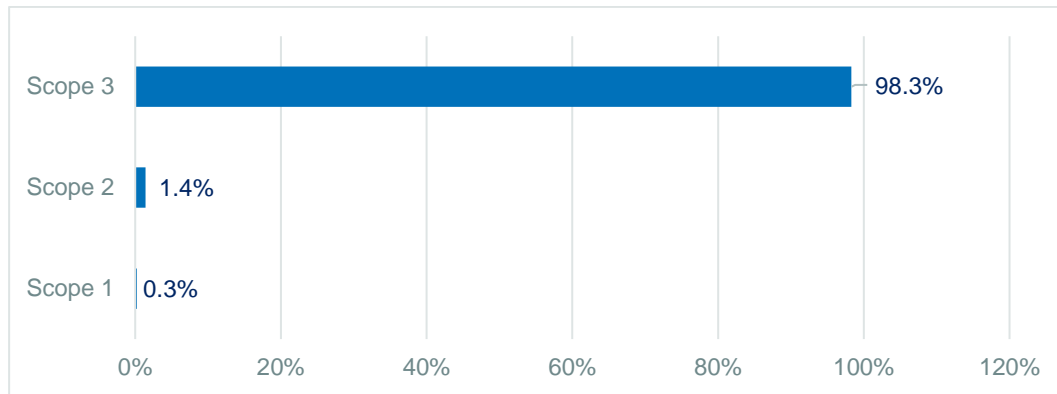


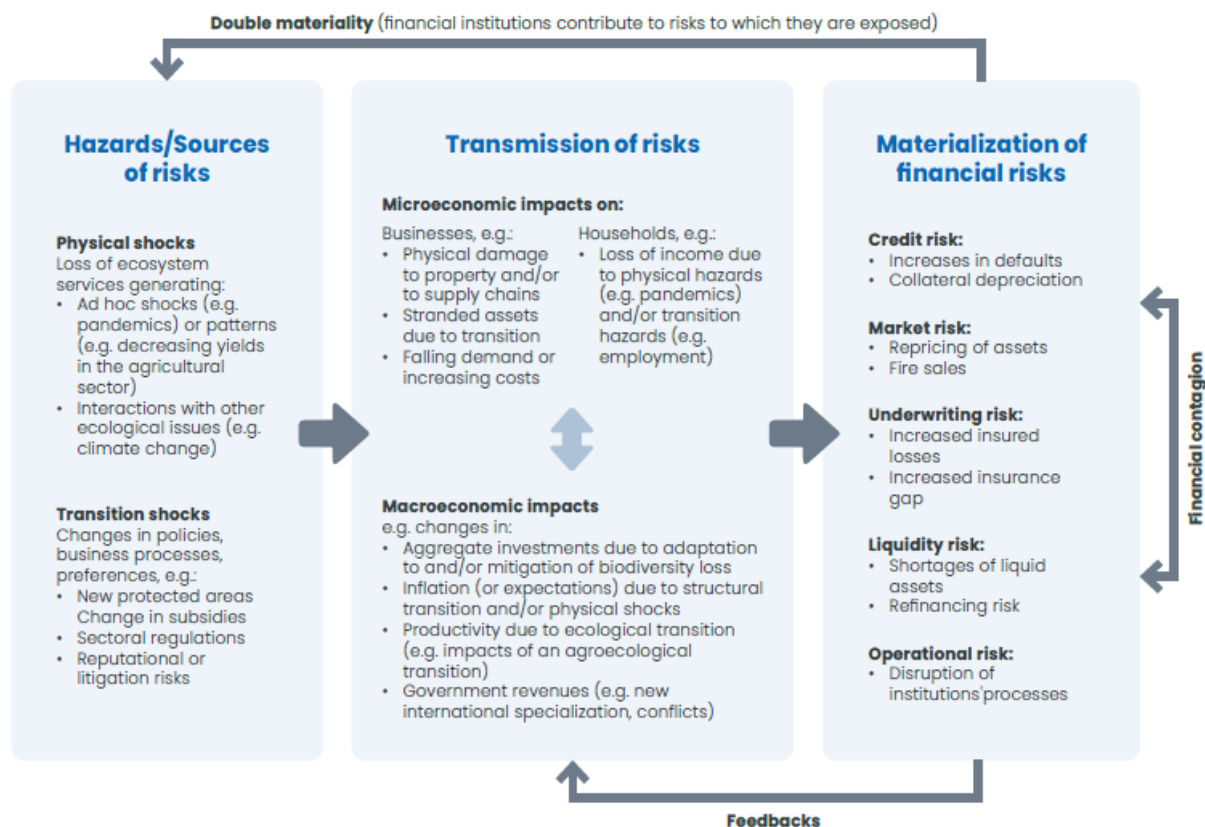
Figure 3 : Median repartition of biodiversity impact within financial sector (in % of total MSAppb*), Carbon4Finance,Candriam

The primary biodiversity risk for Candriam is thus embedded in its investments and manifests through the transmission of physical and transition risks affecting the companies in which Candriam invests.

Companies are both dependent on biodiversity and affect ecosystems through their operations. Integrating this interconnection at a strategic level in investment decisions means considering both the companies’ dependency and their impact on biodiversity, making biodiversity a case study for double materiality.

As the physical consequences of biodiversity loss are growing both in terms of scale and impacts, it is our belief that government will need to take action. It is therefore key to anticipate the transition risks that will necessarily emerge from more decisive action from policy-makers. Our model pays due attention to both sides of the biodiversity risks, physical impacts and transition risks.





Source: Banque de France, A "Silent Spring" for the Financial System? Exploring Biodiversity-Related Financial Risks in France, R. Svartzman et al.

Figure 4 : Transmission of biodiversity risk in the financial system

Assessing the impacts and dependencies of our investments

The concept of double materiality involves considering both the impacts and dependencies of a company on biodiversity. With regards to the model, this means assessing a set of biodiversity impact indicators and a set of dependencies on ecosystem services based on the company's economic activities. The large number of issuers in the investment universe necessitates a compromise between the precision of the inputs used for the analysis and the effective coverage of this type of data. The model used by Candriam is the BIA-GBS framework developed by Carbon4 Finance in collaboration with CDC Biodiversité.

The BIA-GBS framework is an innovative framework which assesses the **biodiversity footprint** of companies (Global Biodiversity Score™) using the **"Mean Species Abundance" (MSA) metric**, measured in MSA.km² and MSAppb (MSA parts per billion)*. The MSA metric is designed to gauge the extent of ecosystem integrity loss, essentially measuring how much primary ecosystems have been altered or transformed into areas with diminished biodiversity value. For instance, converting 1km² of untouched primary forest into a biodiversity-barren parking lot would result in a biodiversity loss quantified as 1 MSA.km².

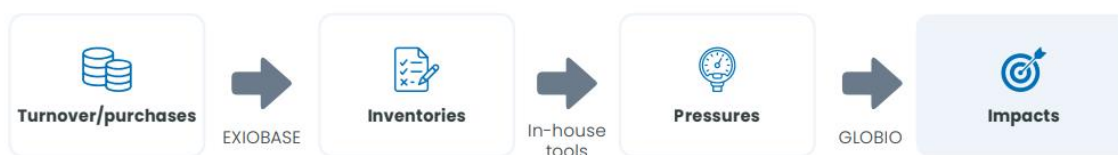


What is the MSA (Means Species Abundance) metric ?

The unit used by the GBS integrates the MSA on the impacted surface



Biodiversity footprint assessment of a company



Example: Case of a poultry meat business: one of the impacts will relate to poultry feed production



Source: Candriam, CDC, Carbon4Finance

Figure 5 : Description of BIA-GBS methodology

The BIA-GBS framework is a top-down model based on an input-output methodology that derives biodiversity impacts from companies’ breakdown of activities. More specifically, this model uses companies’ revenues by activity and region, to derive commodity inventories and related environmental impacts that are ultimately aggregated into an estimate of a biodiversity “footprint” expressed in MSA.km², later converted into MSAApp*. As such, each company, through its activities, is attributed a certain level of ecosystem integrity loss. This number can then be aggregated at portfolio level.

Additionally, the model provides a **dependency table** on 21 ecosystem services, expressed as a **percentage from 0% (low dependency) to 100% (high dependency)**, based on the ENCORE methodology¹. These two metrics (MSA and dependency) facilitate the creation of an impact/dependency matrix for an issuer, based on the revenue associated with its business segment by region. **Issuers can then be categorized into four groups:** High Impact/ High Dependency, High Impact/ Low Dependency, Low Impact/ High Dependency, and Low Impact/ Low Dependency.

Based on this approach, **we developed a sectorial matrix** that emphasises the sectors of greatest importance according to our classification regarding our investees. This matrix provides a clear perspective on the sectors that should be at the forefront of our research and development initiatives. The sectors are organised into high, medium, and low stakes based on their impact and dependency assessments.

¹ ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) is a free, online tool that helps organisations explore their exposure to nature-related risk and take the first steps to understand their dependencies and impacts on nature. <https://encorenature.org/en>



Sector matrix of impacts and dependencies

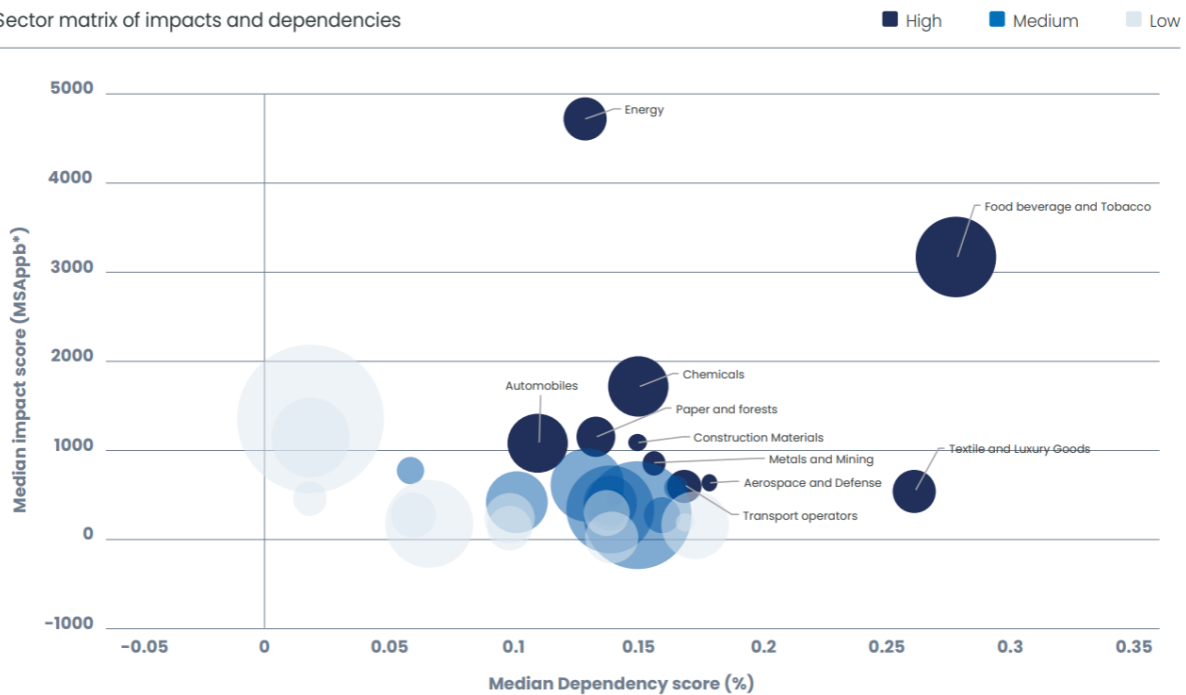


Figure 6 : Median dependencies and impacts by sectors, Candriam, Carbon4 Finance

As shown in the matrix, among sectors with high stakes we find energy (with the highest impact score of nearly 5000 MSAppb* and a median dependency score around 13%). Food beverage and tobacco have a median impact score just above 3000 MSAppb* and a high dependency of 28%, while textile and luxury goods have a similar dependency (above 25%) but a low impact score (below 1000 MSAppb*). Chemical, automobiles, metals and mining have low impact scores relative to the sectors previously mentioned (below 2000 MSAppb*) and dependency scores ranging between 1% and 2%.

However, like many models, the BIA-GBS model has limitations of which we are fully conscious. As geographical exposure is based on revenue, not actual operations, the geographic data may not represent the real region of activity. For instance, if two companies generate identical turnover in the same commodity and country markets, they are likely to have comparable biodiversity footprints, as the model does not consider specific locations and companies' practices. While this model provides an order of magnitude of biodiversity destruction linked to activities, it is not an accurate measure of the actual biodiversity impacts of an activity has locally. To address these limitations, **we complement the model by incorporating a geographic asset-level analysis for issuers with high impact and/or dependency.**

B. Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organisation's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.

In 2020, The World Economic Forum has assessed that about half of the world's GDP (\$44 trillion) is moderately or highly dependent on nature and its services and is therefore exposed to nature loss. As a global investor, biodiversity loss will impact our activity and business model in a systemic way, with wide-ranging non-linear effects that are impossible to predict. For any investor, failing to address biodiversity loss can lead to substantial economic repercussions, threatening the value of investments.

In addition to systemic impacts, biodiversity loss affects companies we invest in, and thus the value of our investments, in a specific manner, depending on their activities and location, and the action taken by companies to mitigate these risks. Our biodiversity model aims at assessing biodiversity risks and impacts associated with each company in a specific and contextualised manner, that needs to consider both impacts and dependencies and physical and transition risks.

In order to mitigate these risks, **we have developed a biodiversity strategy** that aims at avoiding activities that combine high level of biodiversity impacts and risks, while integrating in a company-specific manner the impacts and risks associated with our investments. Like the rest of our ESG approach, this is supported by dedicated engagement efforts and communicated transparently through a set of relevant indicators.

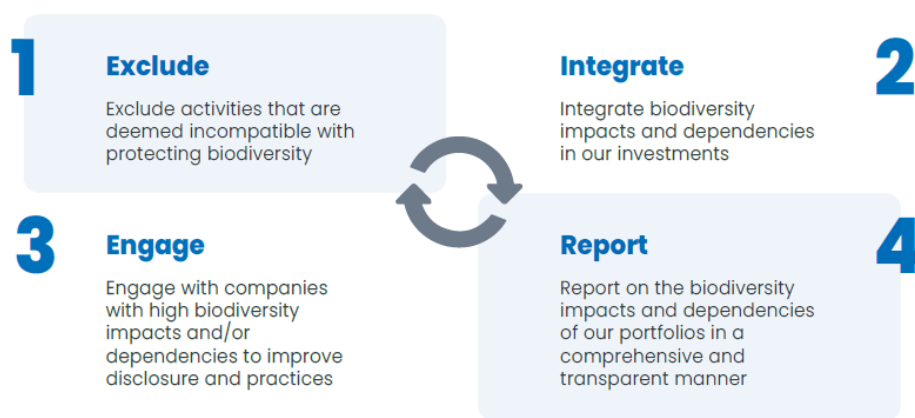


Figure 7 : The 4 pillars of the Candriam Biodiversity strategy

- **Exclusion**, certain activities are considered fundamentally incompatible with a world that respects biodiversity. This includes the production of **pesticides** for the agricultural sector, the development of **genetically modified organisms (GMOs)**, and certain **controversial mining practices**, such as deep-sea mining. Additionally, companies that lack sufficiently advanced management practices on issues identified as critical by our biodiversity model are also excluded.
- **Integration** refers to the application of our Biodiversity assessment model to the investment universe. Considering this type of assessment is time consuming, the assessment will be done only on high stakes sector, or for issuer where biodiversity is considered material.
- **Engagement** refers to biodiversity linked engagement, direct or collaborative. In 2023, we have notably conducted an engagement on palm oil supply chain, and we became a member of the Nature action 100 initiative.
- Lastly, we have committed to **report** the biodiversity footprint of our article 9 funds using data from Carbon4 Finance about biodiversity footprint expressed in Mean Species Abundance. Km². We also have committed to disclose a TNFD (Taskforce on Nature and Financial Disclosure) report in 2024, that details our Biodiversity methodology.

C. Describe the resilience of the organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios .

In the absence of a single, global biodiversity scenario that can be satisfactorily applied to Candriam's activities, multiple scenarios are incorporated into the analysis. The approach uses biodiversity scenarios specific to each biodiversity topic (water, protected areas etc...), rather than a global scenario, that would multiply hypotheses and could dilute the end results. Stress scenarios related to water scarcity, legal developments, or changes in species abundance are integral components of the LEAP method itself, ensuring a more targeted and context-specific analysis of biodiversity impacts. These scenarios are key in order to anticipate both physical and transition risks in a contextualized manner in our investments. All the scenarios utilized are detailed in the **Risk & Metrics** section of this report.

D. Disclose the locations of assets and/or activities in the organisation’s direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.

The biodiversity impacts of Candriam are primarily linked to the activities of the companies in which we invest, rather than our direct operations, which are limited to office activities. Therefore, in the context of a biodiversity analysis, the geographic locations of our investments is what really matters.

The localization of the assets of companies in which Candriam invests is a complex task that requires a prioritized approach, to limit the extent of coverage. As a result, companies that are analyzed with a localized approach are prioritized using the double materiality analysis described above. Our initial focus is also placed on sustainable funds classified as article 9 under SFDR classification. Figure 8 presents the locations of the production sites of these companies, weighted by monetary exposure. Only the direct locations of the companies are represented, covering 56% of the companies held in article 9 funds as of the end of 2023. This analysis reveals a significant concentration of production sites in Europe, the United States, and China.

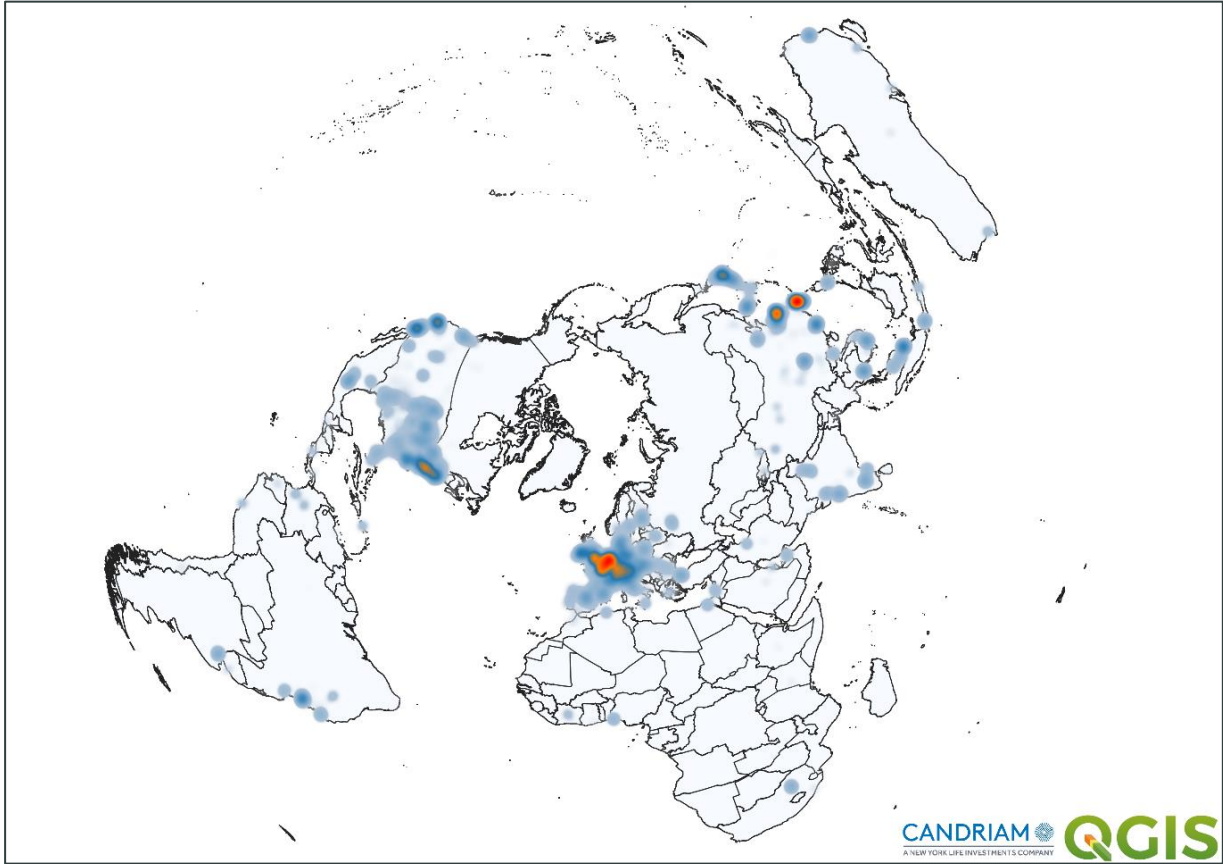


Figure 8 : Heatmap of production assets of companies held in article 9 funds weighted by positions, Candriam



3. Risk and Impact Management

Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities

A. Process to identify and assess climate- and nature related impacts, dependencies, risks and opportunities in the portfolio.

B. Process for managing climate- and nature-related impacts, dependencies, risks and opportunities.

C. Integration of nature-related risks into the overall risk management.

The corporate-biodiversity relationship analysis method incorporates the concepts of impact and dependency, as well as risk management by the company, through the LEAP methodology. This approach ensures a comprehensive evaluation of how businesses both affect and rely on biodiversity, while also considering their strategies and actions to mitigate the associated risks.

Our biodiversity model (LEAP Approach) to assess biodiversity impacts and dependencies

Based on the LEAP approach, the initial phase of our biodiversity analysis involves identifying the interfaces between the emitters and the natural environment. Depending on the industry sector, various methods are employed to pinpoint each company's relevant assets across its entire value chain.

LOCATE : Data may be sourced from third-party databases, collected directly from the company's annual reports, or identified via platforms such as *Google earth engine*. The data quality index is subsequently determined by the collection method and the proportion of collected assets relative to the total real assets. Only assets deemed to have a sufficiently material impact or dependencies are included in the analytical dataset; this typically includes production or extraction sites, while offices are usually excluded.

The geolocated data is then processed using QGIS V3.4, an open-source geographic information system (GIS) software that allows for the manipulation of such data.

The geographical analysis is characterized by correlating a company's geographic footprint with the biodiversity conditions in the surrounding area, accomplished through map overlays. This method allows biodiversity data to be attributed to each company asset. The data collection process can take one of three forms:

- **Overlay Join:** When using polygon or raster geographic data, an asset can be associated with the underlying polygon's data through overlaying techniques.
- **Nearest Join:** This method, also typically applied with polygon maps (and occasionally with point data), involves assigning the nearest polygon to the asset, along with calculating the associated distance.
- **Statistical Evaluation:** For raster maps, data is extracted via statistical averaging within a buffer zone surrounding the asset. By default, the buffer is a circular region with a 2 km radius centred on the asset, and both the average and maximum values within this buffer are captured.

EVALUATE : The refined data is then exported into a dashboard, enabling a dedicated biodiversity analyst to carry out an evaluation. The analysis focuses on specific biodiversity-related themes derived from the AR3T framework of SBTn, particularly within the "Avoid" and "Reduce" categories.

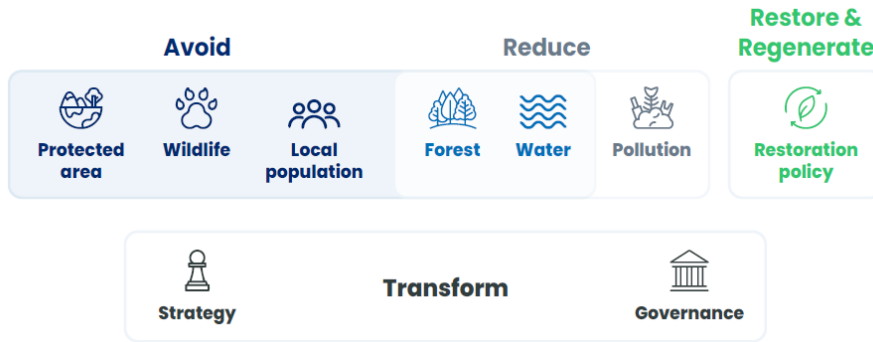


Figure 9 : Topics covered in the biodiversity assessment, Candriam

This evaluation and the associated set of biodiversity data can then be extracted into a biodiversity report shared with the investment teams. This assessment includes an asset-level evaluation of biodiversity risks that constitutes very valuable input for our engagement efforts.

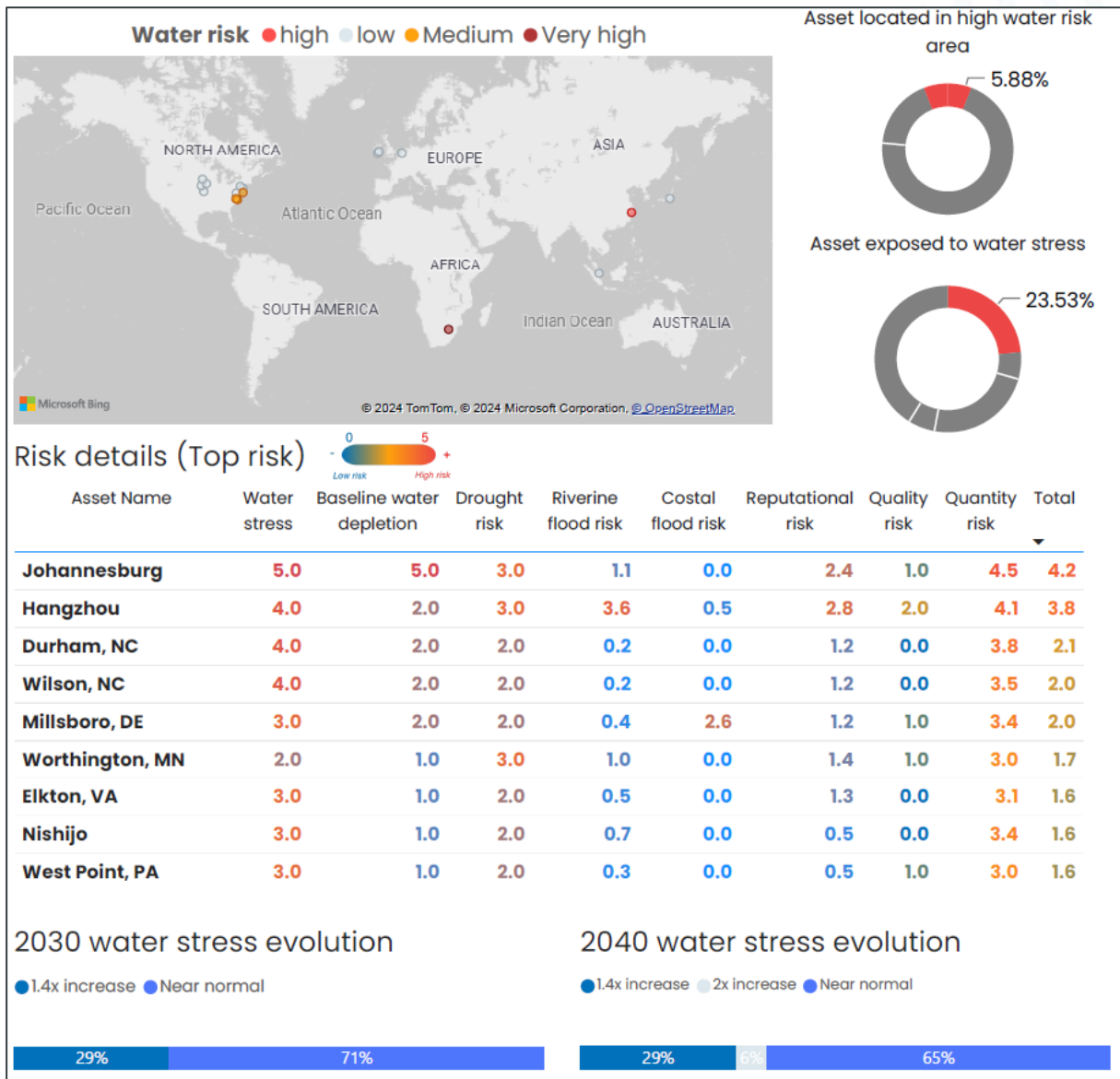


Figure 10 : Extract of a biodiversity report on a pharmaceutical company, Candriam



ASSESS : For all of the biodiversity topics included in our model, the company is assessed based on the exposure-management pairing. The question to be answered is simple: is the company's management of biodiversity issues satisfactory given its level of exposure to biodiversity risks and impacts? The company's exposure, which refers to whether a given issue is material to the business, is evaluated according to its economic activities (such as supply chain dynamics, emissions, and frequency of controversies) and its geographical exposure to the issue. Consequently, the company's management practices on each topic are assessed in relation to the materiality of the issue.

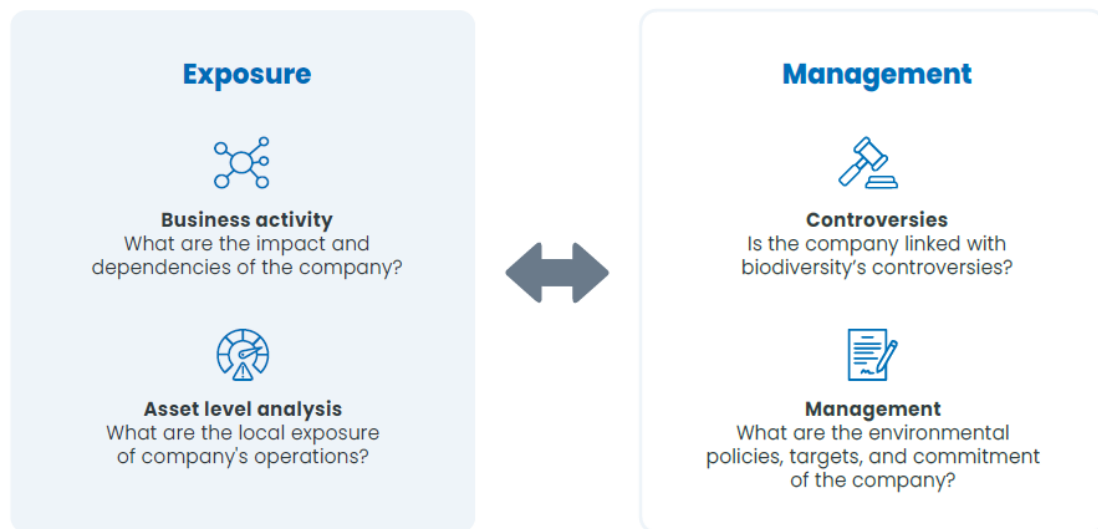


Figure 11 : Biodiversity assessment framework, Candriam

For each topic, an exposure score and a management score are assigned. The management score is determined based on a series of hierarchically structured conditions that must be satisfied to achieve a higher rating. By default, the lowest score is assigned, and the score increases as additional conditions are met, as illustrated in Figure 12. A distinct set of criteria is established for each sector and for each biodiversity topic (e.g., Water, Wildlife, Pollution, etc.). Figure 13 provides an example of the criteria framework applied to the water topic.

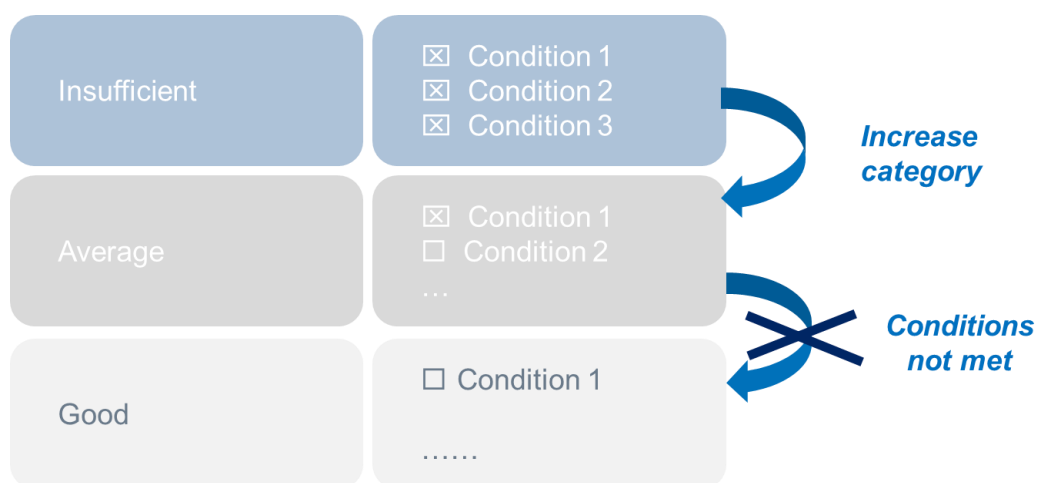


Figure 12 : Biodiversity assessment scoring methods, Candriam



Management aspects	Criteria
Governance and Disclosure	Governance Structure (oversight and execution on water strategy) Incentives (objectives in remuneration) Water-related disclosure (completeness & relevance of metrics)
Water strategy and targets	Materiality assessment Water policy Resources allocated Targets and metrics (expecting localized approach at least on hotspots)
Risk assessment and Management	Water risk assessment Quantification of financial impact (including scenario where relevant)
Performance	Company progress on KPIs (expecting localized approach at least on hotspots)
Controversies	Violation of environmental laws Financial penalties Conflict with local populations

Source: Candriam

Figure 13 : Example of criteria used for water management assessment, Candriam

The matrix combining the scores of the different topics is then represented, revealing the company's strengths and weaknesses in dealing with biodiversity issues. This matrix is considered the output of a biodiversity analysis. While these results can, in certain cases and for specific objectives, be quantified as a score, we prefer to consider the management of each biodiversity issue independently, as this provides a more granular view of the areas of risks and impacts.

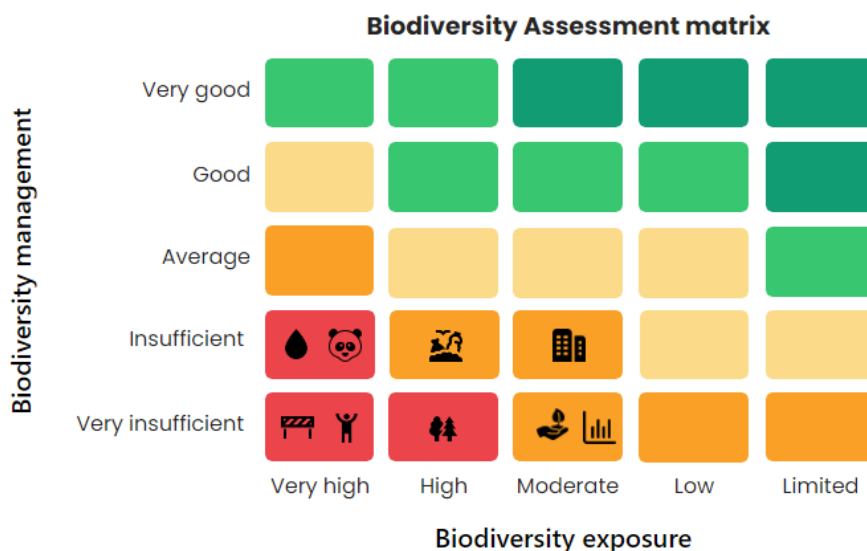


Figure 14 : Example of a biodiversity assessment matrix , Candriam

PREPARE : the results of the biodiversity analysis influence the ESG score of the company through a process involving both the biodiversity analyst and the sector analyst covering the relevant industry. The impact on the ESG score can lead to the exclusion or inclusion of a company within the sustainable investment universe. The biodiversity analysis can also lead to the exclusion of a company if any of the evaluated themes falls within the lowest categories (very insufficient management of biodiversity risks and impacts in a context of very high exposure) (see section 3.1).

In addition to affecting an issuer's eligibility to sustainable funds, the biodiversity analysis can conclude that engagement with the company is necessary, either as part of a collaborative campaign or on an



individual basis, if a specific issue is identified (e.g., operations in a protected area). These engagements can, in turn, influence the ESG rating, impact voting decisions, and lead to exclusions if the engagement is deemed unsatisfactory.

Figure 15 provides a simplified representation of how our methodology integrates within the LEAP framework. This visual serves to clarify the alignment between our approach and the key components of the LEAP process, ensuring a coherent and structured application of its principles.

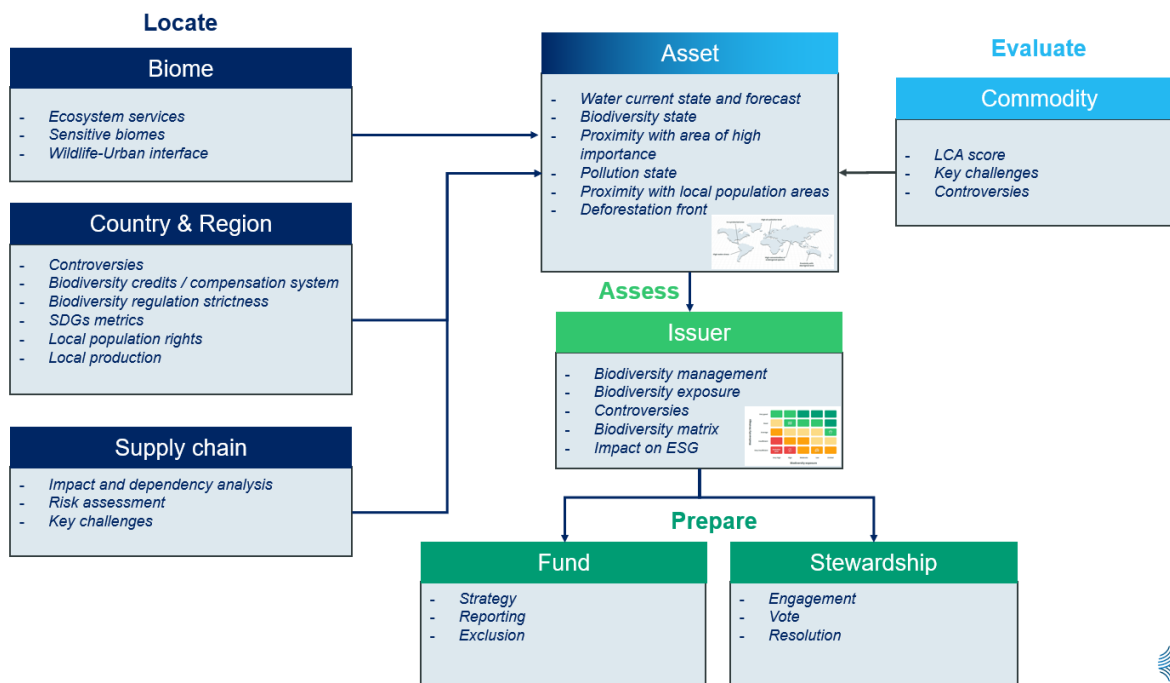


Figure 15 : Candriam Biodiversity LEAP Framework, Candriam

3.1. Exclusion of activities and practices deemed incompatible with biodiversity protection

Pesticides production : The global use of pesticides is increasingly implicated in a range of ecological disasters. Assessing the full extent of these impacts is challenging, yet the evidence points towards significant and non-negligible consequences. These include the potential role of pesticides in the mass extinction of insects in Europe over the past 30 years, detrimental effects on workers' health, deterioration of water quality, and adverse impacts on communities adjacent to agricultural areas and end consumers. Within the broader agenda of agricultural reform, prioritizing the reduction of pesticide use and its associated risks is imperative. In alignment with this goal, Candriam, through its SRI framework, excludes all producers of pesticides from its sustainable investment universe.

Exclusion criteria : 1% of revenue derived from pesticide production for the agro-chemical sector

GMO (Genetically Modified Organisms) production : The business models and practices associated with GMO production have resulted in the homogenization of crops, creating a dependency on the providers of these genetically modified seeds. Moreover, the ecological impacts of this approach are significant and include the disruption of ecosystem dynamics, the promotion of monoculture practices, and adverse effects on species not targeted by the GMO traits. Similarly to pesticide production, issuers involved in the production of GMO are excluded from our sustainable investment universe.

Exclusion criteria : 1% of revenue derived from GMO production

Deep sea mining : In the context of energy transition, there is an anticipated surge in the demand for metals. This prospect is driving some producers towards innovative, yet potentially harmful, extraction



methods such as deep sea mining. Given the current understanding of the potential impacts of such activities, coupled with international opposition to these practices, Candriam has decided to exclude deep sea mining activities from its sustainable investment universe.

Exclusion criteria : any direct involvement in deep sea mining projects, exploration and operation

Riverine and aquatic tailings disposal : Aquatic tailings disposal, a process where mine waste is deposited into natural water bodies, results in the physical degradation of aquatic habitats. This practice disrupts the delicate balance of ecosystems, significantly impacting both plant and animal life that rely on these habitats for survival. Given the extensive environmental impacts of this technique, companies using aquatic tailings disposal are excluded from our sustainable investment universe.

Exclusion criteria : any involvement in riverine and aquatic tailing disposal practices

Deforestation-Linked Commodities: Our strategy is aligned with the most recent legislative developments in Europe, specifically the new law on imported deforestation (European Parliament, 2022). Each company exposed to commodities at risk of deforestation will be subject to an engagement campaign. Companies that do not meet the European regulatory requirements on imported deforestation, or if the engagement campaign yields a negative outcome, will be excluded from our sustainable investment universe. Similarly, companies not subject to this regulation but failing to meet transparency or practice standards regarding high-risk deforestation commodities will also be excluded from investment if the engagement campaign is unsuccessful. The concerned commodities include cattle, cocoa, coffee, palm oil, soy, wood, rubber, charcoal, and printed paper products.

Exclusion criteria: Companies with high deforestation risk that have not been responsive to Candriam’s engagement campaign.

Excluding companies that have demonstrated harmful practices to biodiversity

Our biodiversity analysis model assesses the relevance of a company's biodiversity management in relation to the impact and dependencies of its business model on nature, as well as the local geographical context of its operations. If there is a deficiency in the company's management, or if the AR3T framework is not properly applied, or if environmental controversies indicate a manifest problem, then the company will be flagged as having demonstrated “very insufficient” management of biodiversity. In such cases, we will engage with the company on the relevant issues through various means, such as discussions to clarify any doubts, submission of resolutions, or support for environmental resolutions. If the engagement is not satisfactory, or if the biodiversity risk is too high, the issuer will be excluded from the sustainable investment universe (article 9 funds under SFDR classification).

Companies for which we have assessed topics in “very insufficient” and “very high” categories are excluded from our article 9 funds.

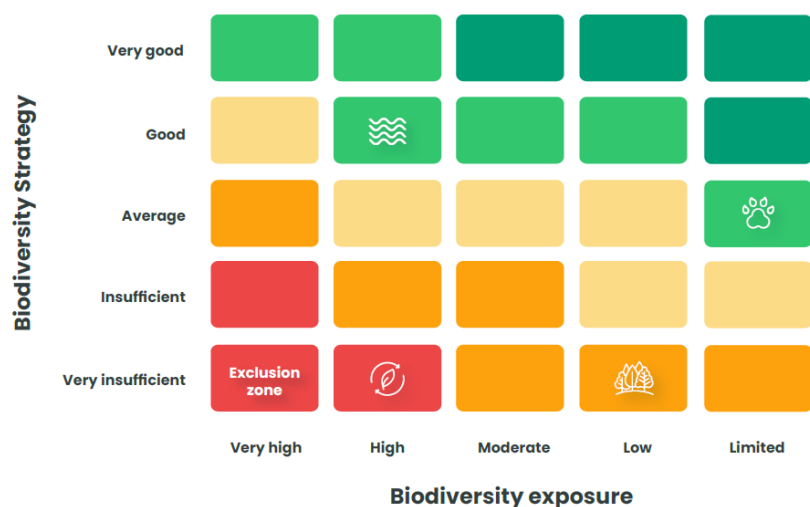


Figure 16 : Candriam Biodiversity assessment matrix exclusion zone, Candriam



3.2. Engaging to improve biodiversity practices

3.2.1. Direct dialogue with companies

Our biodiversity model allows to identify significant risk elements in sub-themes related to biodiversity, such as water resources, deforestation, pollution, etc. This analysis enables us to pinpoint priority targets for biodiversity engagement, as well as preferred engagement topics.

In this context, we will conduct thematic engagement campaigns on specific issues like water, deforestation, and disclosures. This engagement process involves several stages, beginning with an initial contact with the company to gather more information and ensure transparency on the pertinent issue. This is followed by a dialogue to assess whether the management's response to the identified risks is credible and appropriate. An escalation process is also feasible, including the possibility of impacting our vote at the AGM and proposing resolutions at these meetings to influence the company's biodiversity policies. In the event of a failed engagement or a lack of response from the company, Candriam may decide to exclude the company from its sustainable investment universe.

Objective: by end of 2025, having launched specific biodiversity engagement with the top 20 companies facing the highest level of biodiversity risks and impacts in our sustainable strategies

3.2.2. Taking part in collaborative initiatives

Integrating biodiversity into our investment strategy also means working with a wide range of players and stakeholders. With this in mind, Candriam joined a number of initiatives and working groups in 2023.

Candriam is a member of the **UNPRI Workshop on Nature Reference Group**. We have already showcased our methodology within this platform, aiming to disseminate knowledge and best practices to fellow investors. We firmly believe that collaborative efforts, particularly knowledge sharing, are crucial in addressing the pressing challenge of biodiversity loss, given its vast scope.

In September 2023, Candriam joined the **Nature Action 100 initiative (NA100)**, a collaborative effort orchestrated by Ceres and the Institutional Investors Group on Climate Change (IIGCC). This initiative coordinates engagement on biodiversity-related issues with a select group of 100 companies among the ones having the most significant impacts on ecosystems. Our aspiration is that this initiative will follow the same trajectory as CA100+ and will lead, for the involved companies, to greater ambitions, ambitious targets and a strict implementation of best practices.

3.3. Reporting transparently on our biodiversity risks and impacts

As part of our biodiversity commitment, Candriam commits to reporting in the most transparent manner on our biodiversity impacts and risks. Our objective is to report on the biodiversity footprint of every fund, starting with sustainability strategies. We have selected Terrestrial static impacts as the most relevant KPI to provide a first assessment of the overall impacts and allow for comparison with benchmark. We will publish this information with the breakdown of impact sources (climate change, land use). The terrestrial static footprint, calculated using msa.km2 cannot be considered however as a performance indicator, and alike carbon footprint is very heavily biased by sectors. We will thus progressively complement this indicator with additional relevant information from our biodiversity model, once coverage is sufficient, in order to provide a more performance than exposure view of biodiversity impacts. .

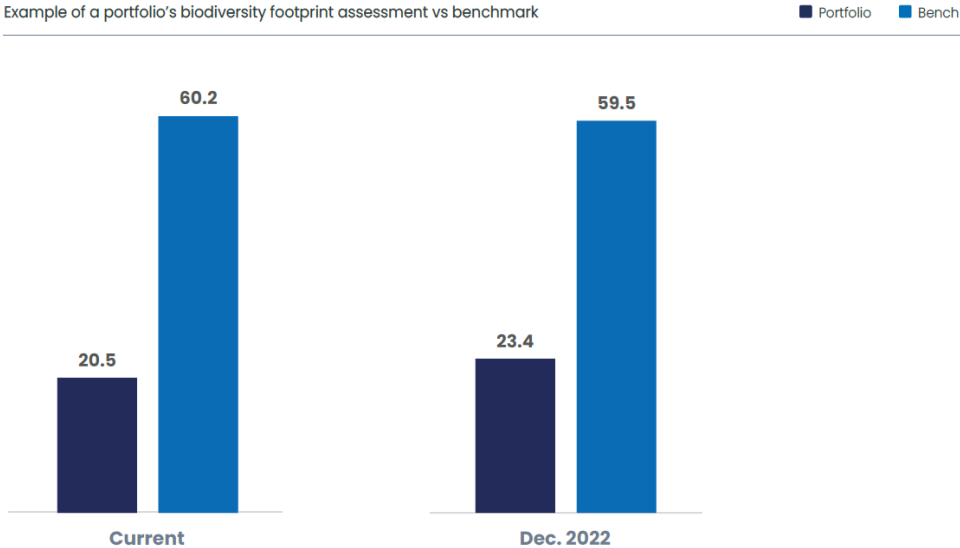


Figure 17 : Example of portfolio's biodiversity footprint assessment, Candriam, GBS model

Objective: by end of 2025, publishing the biodiversity “footprint” of each of our sustainable strategies in the regular fund reporting

In 2023, Candriam became an “Early adopter” of the TNFD framework and committed to **publishing a TNFD report by 2024** covering all its invested activities.



4. Metrics and Targets

Biodiversity is not one but many interconnected issues, with a multitude of dimensions to consider. Each with diverse dimensions that must be considered. As experts have frequently noted, the pursuit of a singular indicator to capture these complexities appears unrealistic. A comprehensive assessment of biodiversity risks and impacts will therefore continue to require a diverse array of indicators, addressing a wide range of topics from various perspectives to adequately reflect the systemic complexity of ecosystem integrity. Guided by this understanding, we have carefully selected and developed our metrics and targets, prioritizing granularity and depth over overly simplistic aggregation.

Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

A. Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process

B. Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature

Our biodiversity analysis at the company level focuses on evaluating its assets and their locations. Consequently, all of the company's activities are placed within their ecological context, considering the country, region, biome, and the topics presented in Figure 9. This asset-level analysis complements an assessment of the company's economic activities through an evaluation of its products and services using a commodity sub-model, which is based on life cycle analysis data. Finally, all these data gathered are combined according to the Biodiversity framework (Figure 15), and mapped with the biodiversity matrix (Figure 14). These combined analyses enable us to understand the impacts and dependencies of a company on biodiversity across multiple scales and dimensions. This comprehensive understanding informs decisions regarding the eligibility of companies for Candriam's funds, while also supporting targeted engagements on specific thematic issues.

4.1. Mean species abundance

The impact and dependency study conducted on all Candriam's article 9 funds identifies the sectors most exposed to biodiversity risk, based on both their activities and the geographical location of their revenues. As outlined in section 2 of the strategy, the MSA.km² metric cannot be used as a performance indicator, but rather serves as an indicator of exposure to biodiversity risk. This indicator is therefore used as a tool to prioritize analysis, both at sector level (figure 6) and at fund level (Figure 18), by identifying the funds that are most at-risk. Fund comparative analysis based on MSA.km² can highlight high disparities between Candriam funds and the necessity to prioritize our assessment.

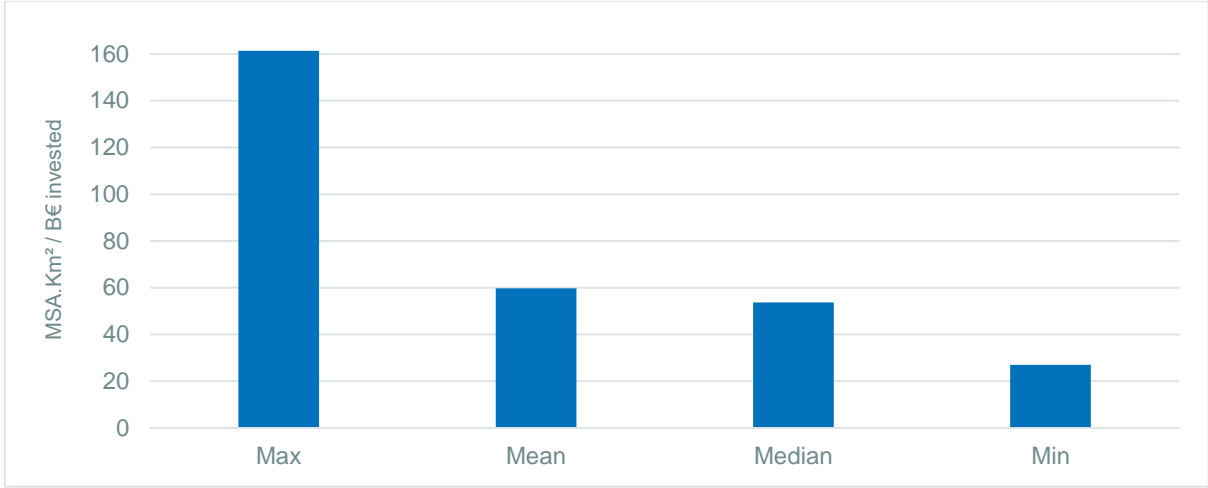


Figure 18 : Terrestrial biodiversity impact intensity in article 9 fund range, Candriam, Carbon4 Finance

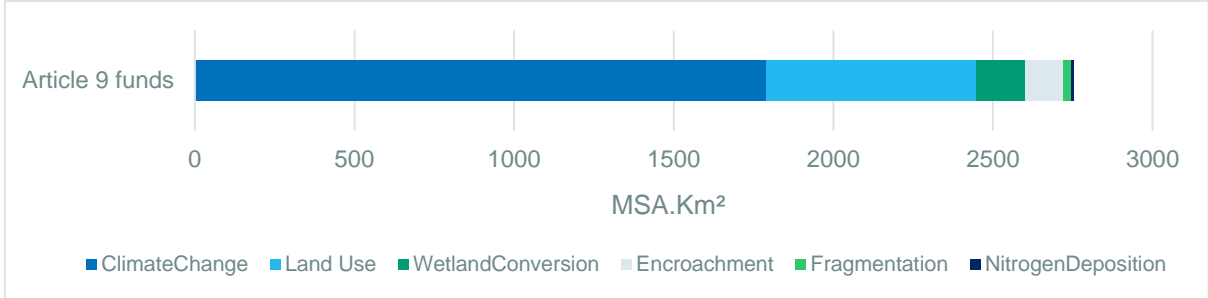


Figure 19 : Aggregation of static pressure on terrestrial biodiversity of article 9 funds, Candriam, Carbon4 Finance

4.2. Biome

The exposure analysis takes into account the biomes in which the company operates directly. This analysis, supplemented by more specific data, provides an estimation of the company's local challenges. This dataset is further enriched with information on the Wildland-Urban Interface (WUI) as shown in figure 21, which helps to determine whether the company operates in an urban area, an urban-natural interface, or a completely natural zone. In certain cases, depending on the industry, this analysis is extended to the company's supply chain, provided such data is disclosed by the issuer. Results of analysis for article 9 funds are disclosed in the Metrics section.



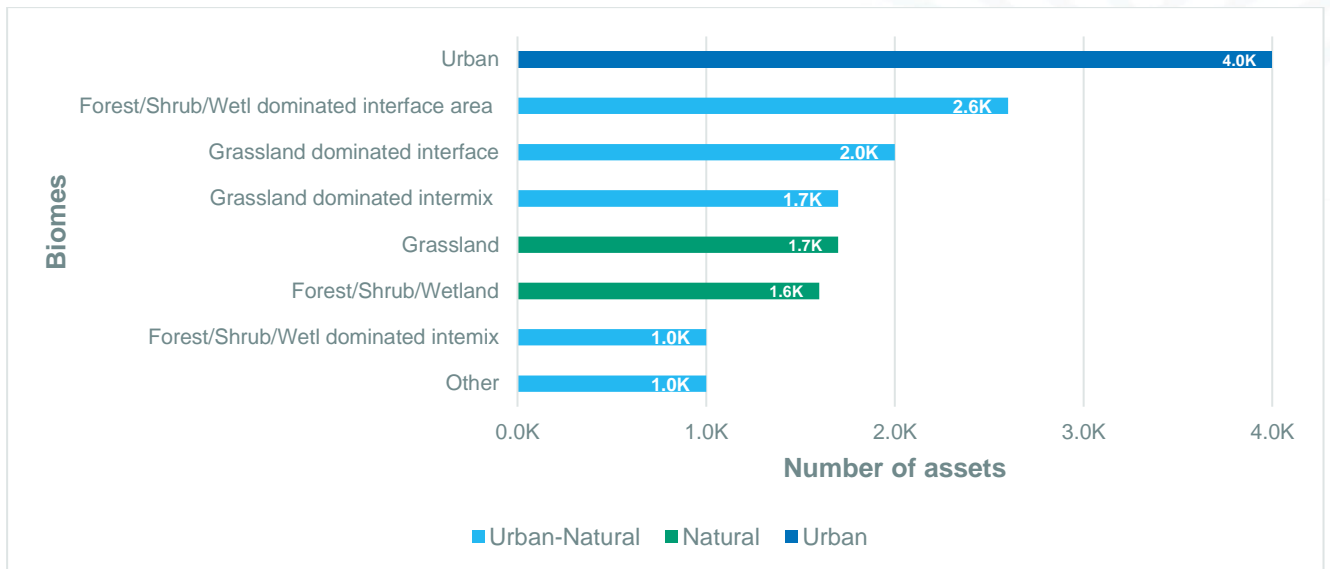
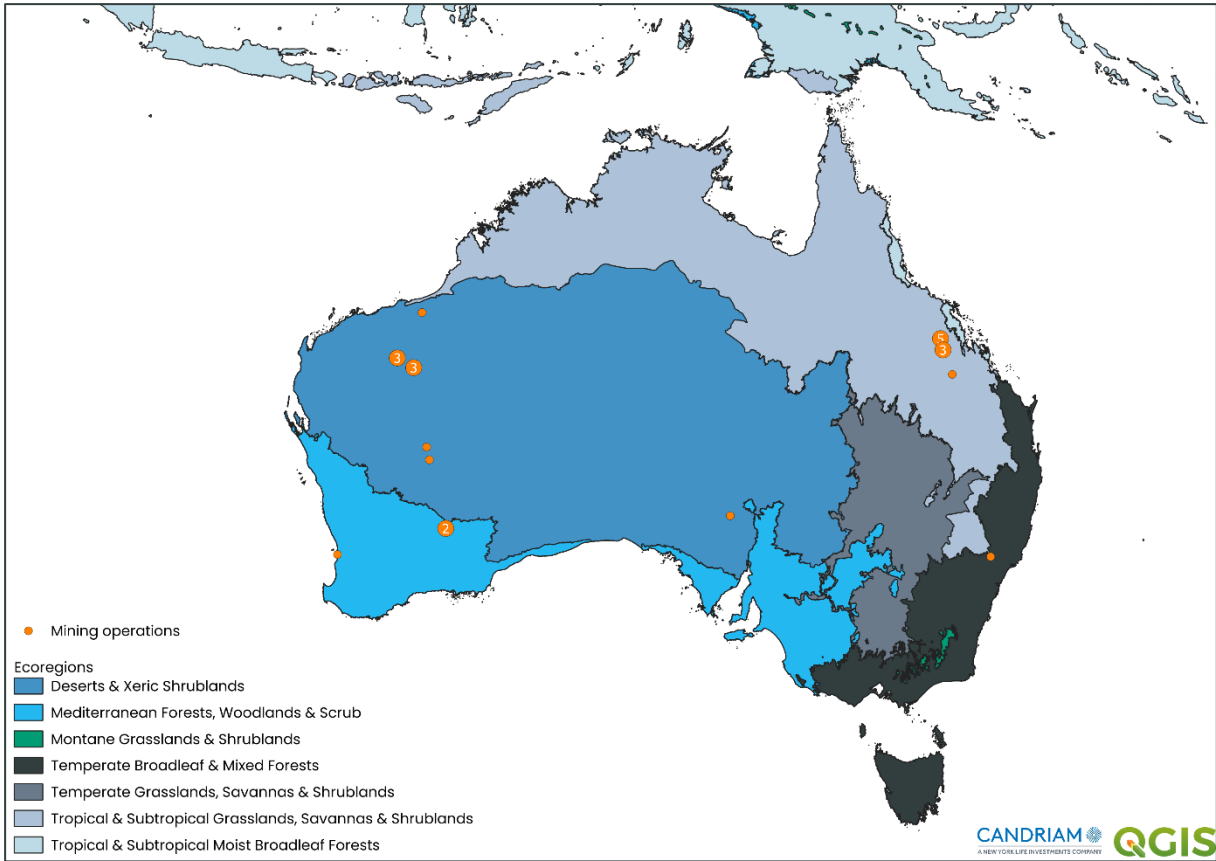


Figure 21 : Breakdown of operations in article 9 funds by Wildlands-Urban Interface

4.3. Country and region :

Companies operate in, or are exposed to, countries which have their own regulations and specific biodiversity risk exposures. These areas of influence — supranational (e.g. the European Union), national, or regional — are considered in the analysis and have varying degrees of impact on the themes being evaluated. The delineation of these areas follows the ISO 3166-1:2013 standard.



In this context, public policies, national ambitions, and observable trends may lead to adjustments in corporate rating systems by topics. Such adjustments could involve the imposition of specific requirements, such as the publication of additional documents, or a more rigorous analytical approach, which in turn would raise expectations on companies' level of ambition.

4.4. Protected Area

The International Union for Conservation of Nature (IUCN) defines a protected area as "a clearly defined geographical space, recognized, dedicated, and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values." These areas are crucial for preserving biodiversity and maintaining ecological balance.

Protected areas serve as a reliable indicator of a company's consideration of biodiversity issues, as they provide an official and recognized reference for the protection status of a given region. It is therefore expected that companies are aware of their proximity to such areas and take appropriate actions in response. OpenStreetMap data is utilized to map the proximity of company assets to protected areas.

The 30x30 target, established by the Kunming-Montreal agreements, aims to increase the coverage of terrestrial and marine protected areas, raising important questions about the selection of these areas. In the context of assessing transition risks, the designation or elevation of protection levels in a geographical area can have significant implications for the economic activities of operations within the region, such as the introduction of new regulations or the need for additional investments. To evaluate this potential impact, data from the Global Safety Network is used to identify areas suggested for protection based on the region's ecological importance, such as intact ecosystems, rare species habitats, or carbon sequestration capacities.

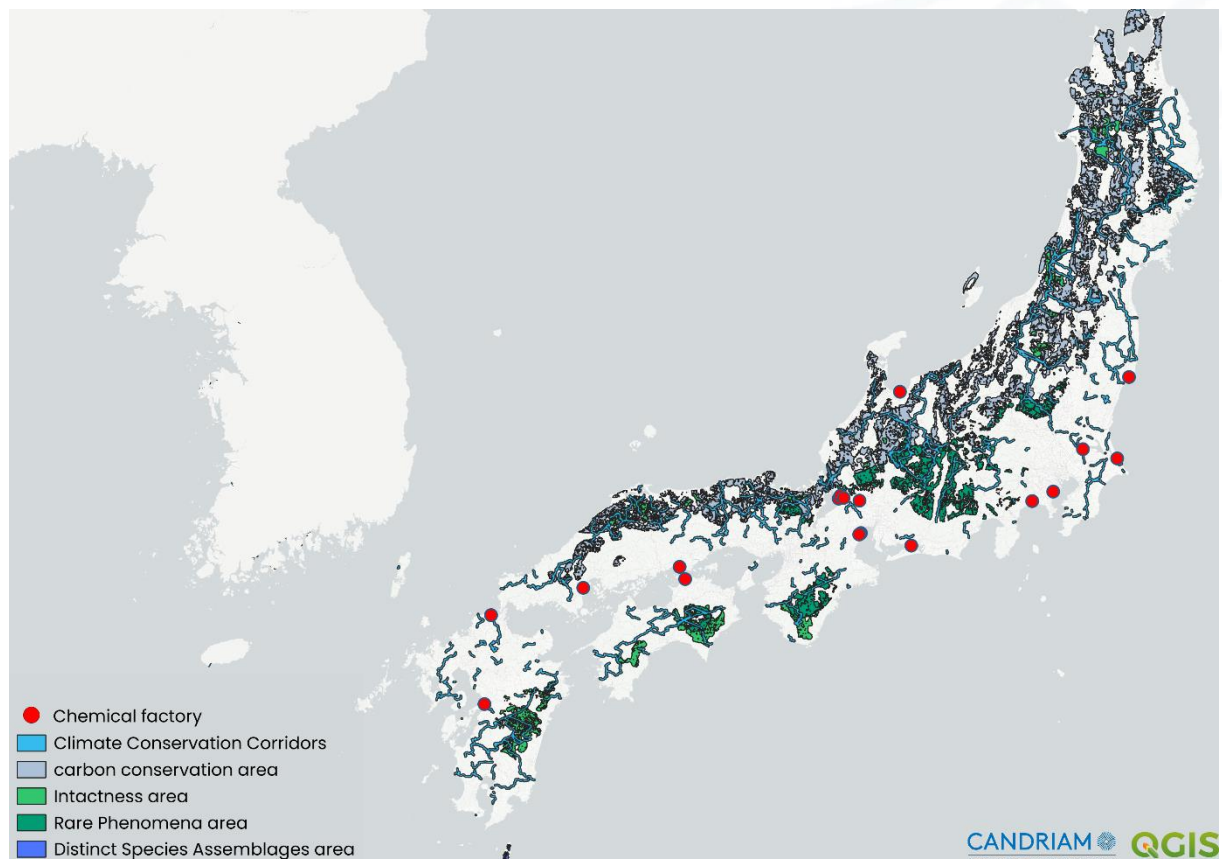


Figure 22 : Example of Chemical companies and its proximity with suggested protected areas, Candriam, GSN, OpenStreetMap



4.5. Local populations

As outlined in the TNFD framework, IPBES reports, and United Nations assessments on the status of Indigenous populations, these communities are particularly vulnerable to the biodiversity crisis. Respect of the rights of Indigenous peoples is a fundamental criterion in Candriam's biodiversity analysis. Within the LEAP approach, this involves evaluating the proximity of the company's operations to Indigenous territories (including Indigenous, Aboriginal, and other native populations), either in direct operations or throughout the value chain. The assessment also considers whether the company implements necessary measures to protect these populations, such as grievance mechanisms and ensuring Free, Prior, and Informed Consent (FPIC).

This evaluation is critical to ensuring that companies not only minimize their impact on biodiversity but also uphold the rights and livelihoods of Indigenous communities, who play a crucial role in biodiversity conservation. The protection of these populations is essential, as their traditional knowledge and sustainable practices are integral to maintaining ecological balance and promoting biodiversity conservation. We use data from Landmark.org to perform the geographic analysis.

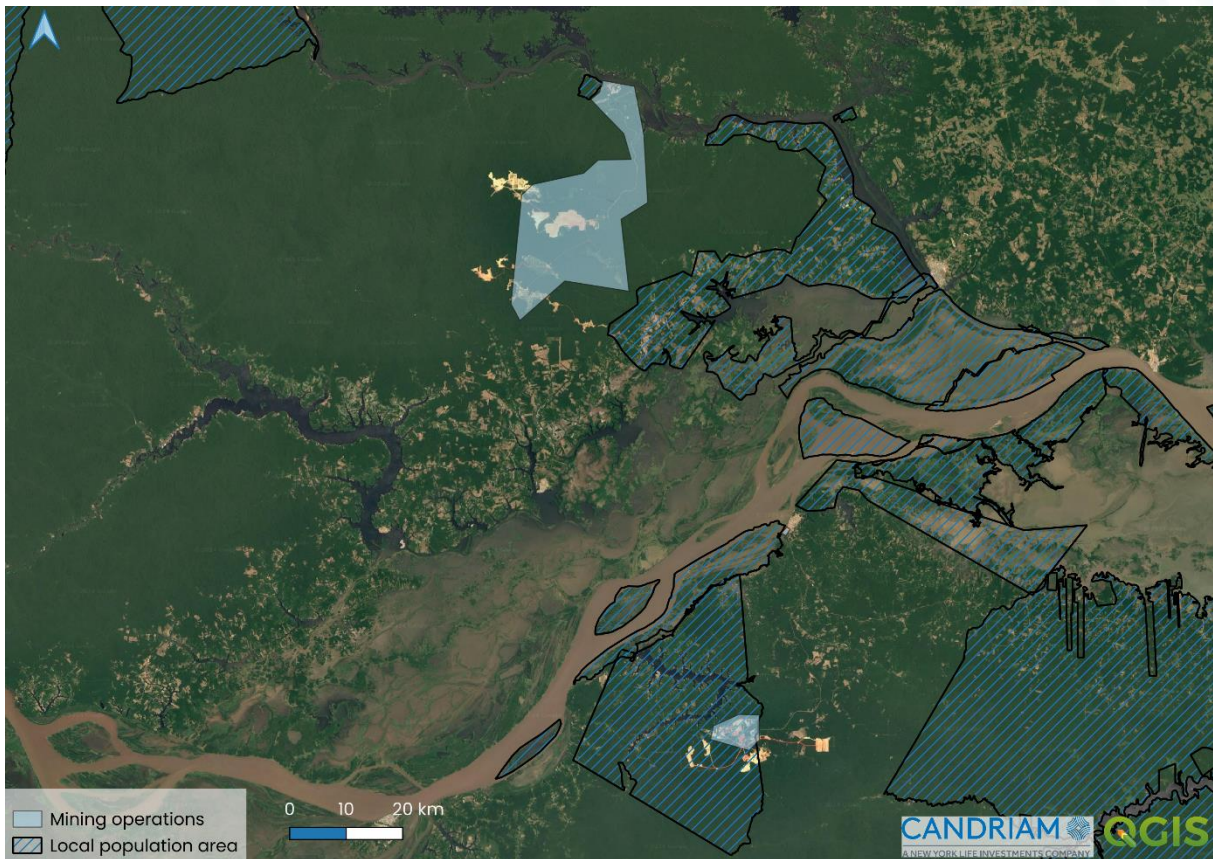


Figure 23 : Example of mining operations next to local population areas, Candriam, Landmark

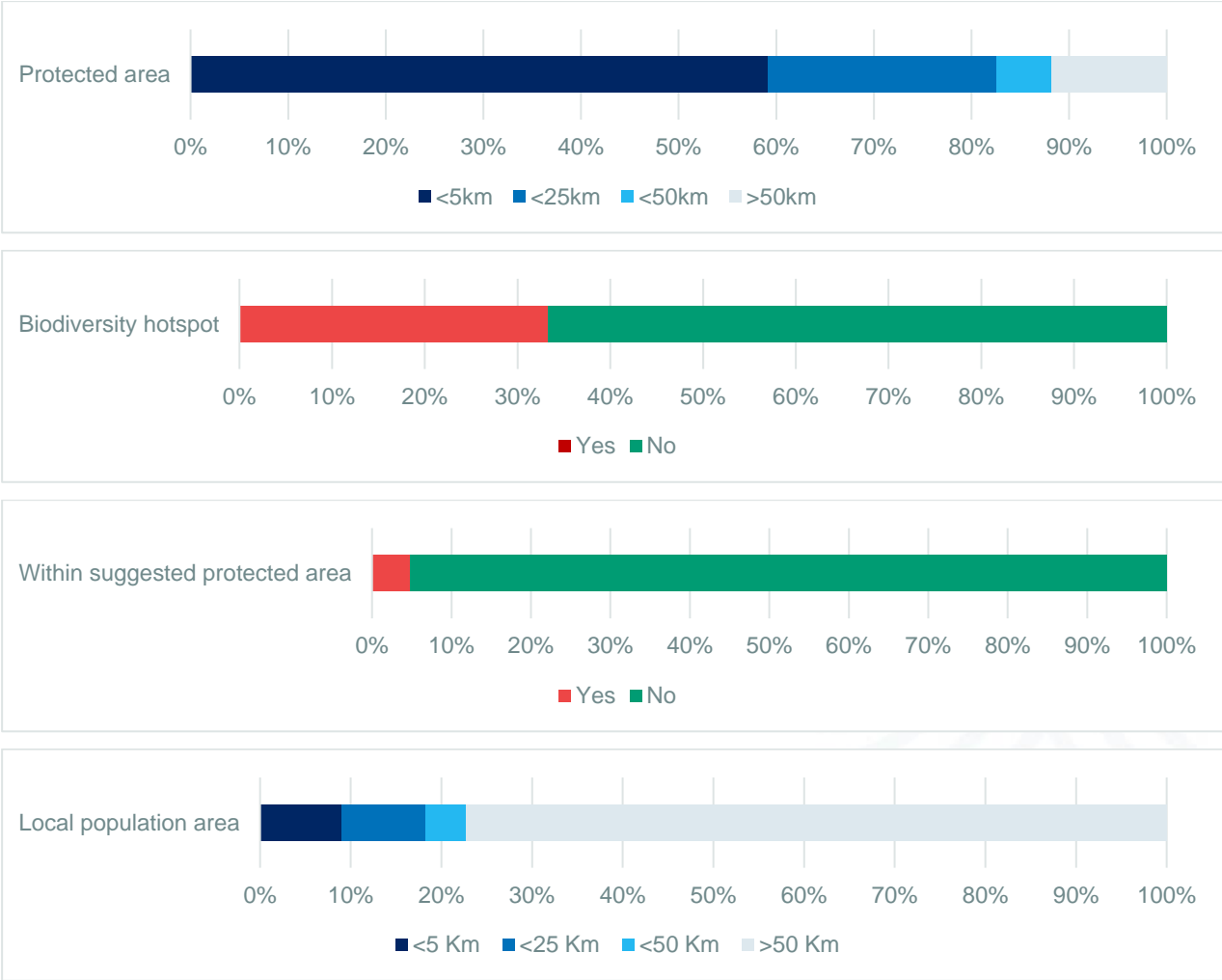


Figure 24 : Proximity of corporate assets within article 9 funds with protected areas, biodiversity hotspots, suggested protected areas, and local population areas, Candriam, OpenStreetMap, WWF, GSN, Landmark.

4.6. Wildlife

In a framework focused on impact avoidance and prioritization of impact reduction, it is essential to assess the local state of fauna and flora. Therefore, our analysis incorporates specific integrity measures.

Biodiversity Intactness Index (BII) and Mean Species Abundance (MSA) metrics provide a global overview of regions that are either ecologically intact or exhibit significant species richness. These metrics are complemented by assessments of the density of protected species within the area.

By combining these integrity and species density measures, it becomes possible to identify operational sites located in regions of high biodiversity importance. These regions are identified based on criteria related to ecological integrity and species density, highlighting areas where biodiversity conservation should be a priority. This enables more informed decision-making concerning operations in these regions, guiding actions to mitigate impacts and ensure the preservation of critical ecosystems.



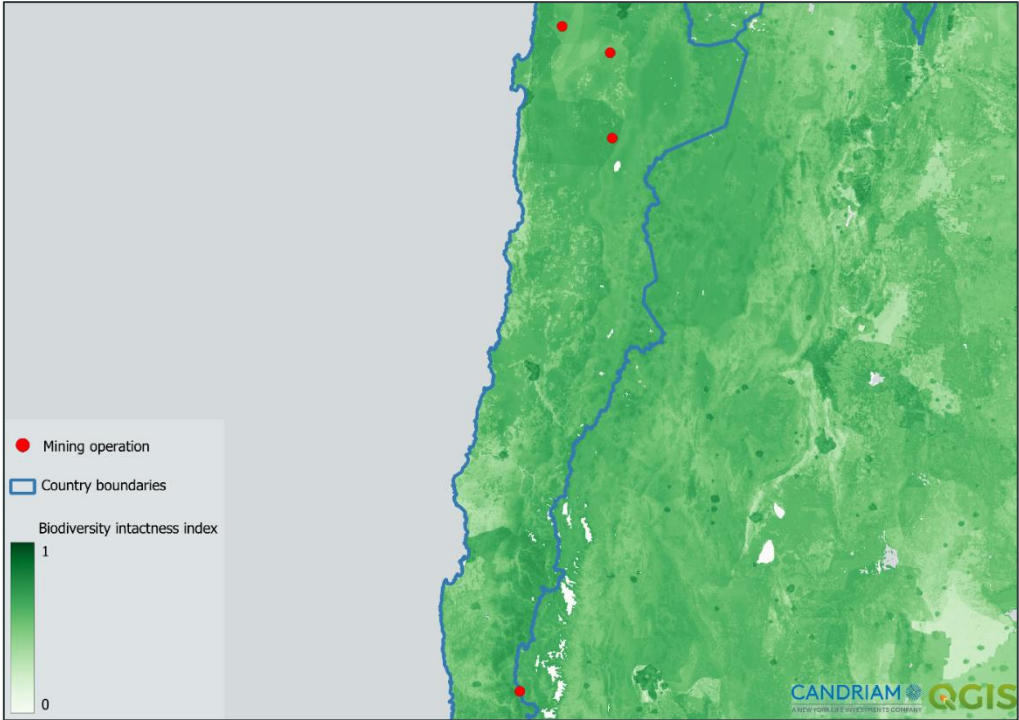


Figure 25 : Example of mining operations exposure to biodiversity intactness index : Candriam, Natural history Museum UK

4.7. Forest

Deforestation is a major biodiversity issue in certain parts of the world and has increasingly been addressed through regulatory measures. The European Directive on imported deforestation aims to prevent the trade of products in Europe that originate from, or whose raw materials are derived from, deforested areas. This regulation seeks to curb the global loss of forests by ensuring that goods entering the European market are not linked to deforestation, thereby promoting sustainable supply chains and protecting critical ecosystems. The directive is part of a broader effort to integrate environmental considerations into international trade and to mitigate the impact of deforestation on biodiversity.

Companies are therefore analysed across their value chains by commodity, with respect to their potential impact on deforestation. Additionally, their direct operations, which can also have significant impacts (e.g., mining, wind farms), are scrutinized. In such cases, operations are assessed using several key data sources: the Landscape Forest Integrity Index, data on irrecoverable carbon stored in forest soils, and geographical areas identified as deforestation fronts by the WWF.



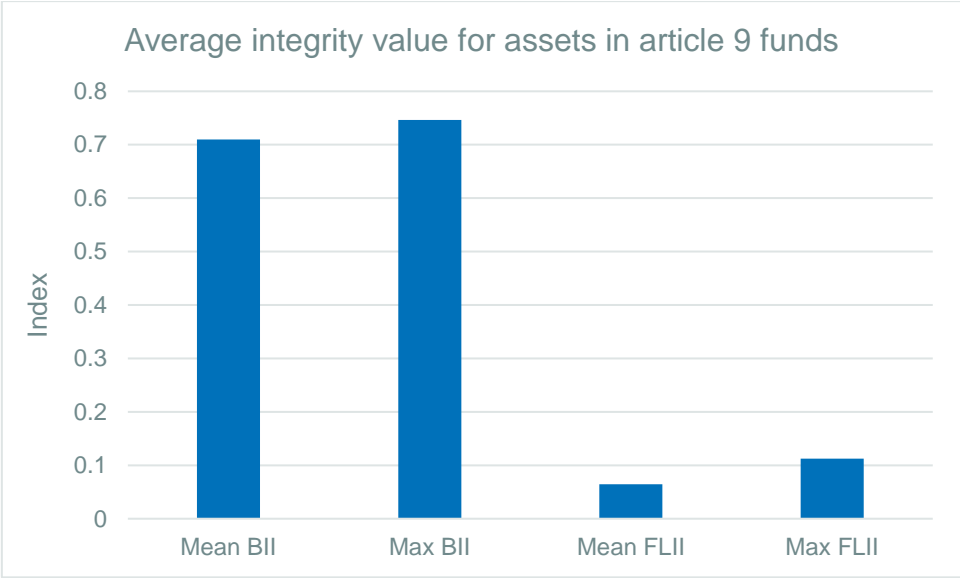


Figure 26 : Average of Mean and Maximum Biodiversity intactness index (BII) and Forest Landscape intactness index (FLII) among assets of companies held in article 9 funds, Candriam, Naturel History Museum UK, H.S. Grantham et al. 2020

4.8. Water

Water is a key resource that reflects both the state of biodiversity and companies’ management practices. Water exemplifies the concept of double materiality: many industrial operations require large quantities of water to function, yet excessive water consumption can necessitate reductions in usage, potentially limiting the company's operations. Furthermore, industrial water consumption can impact surrounding communities, leading to conflicts over water use.

In our analysis, the water situation for each operation is evaluated at the watershed level, using data from the World Resources Institute (WRI). This data provides risk scores based on various types of water-related risks, including quantity, quality, and reputational risks. These assessments help to identify areas where water scarcity or pollution could pose significant challenges to both the company’s operations and the local ecosystems and communities, ultimately guiding the development of sustainable water management practices.



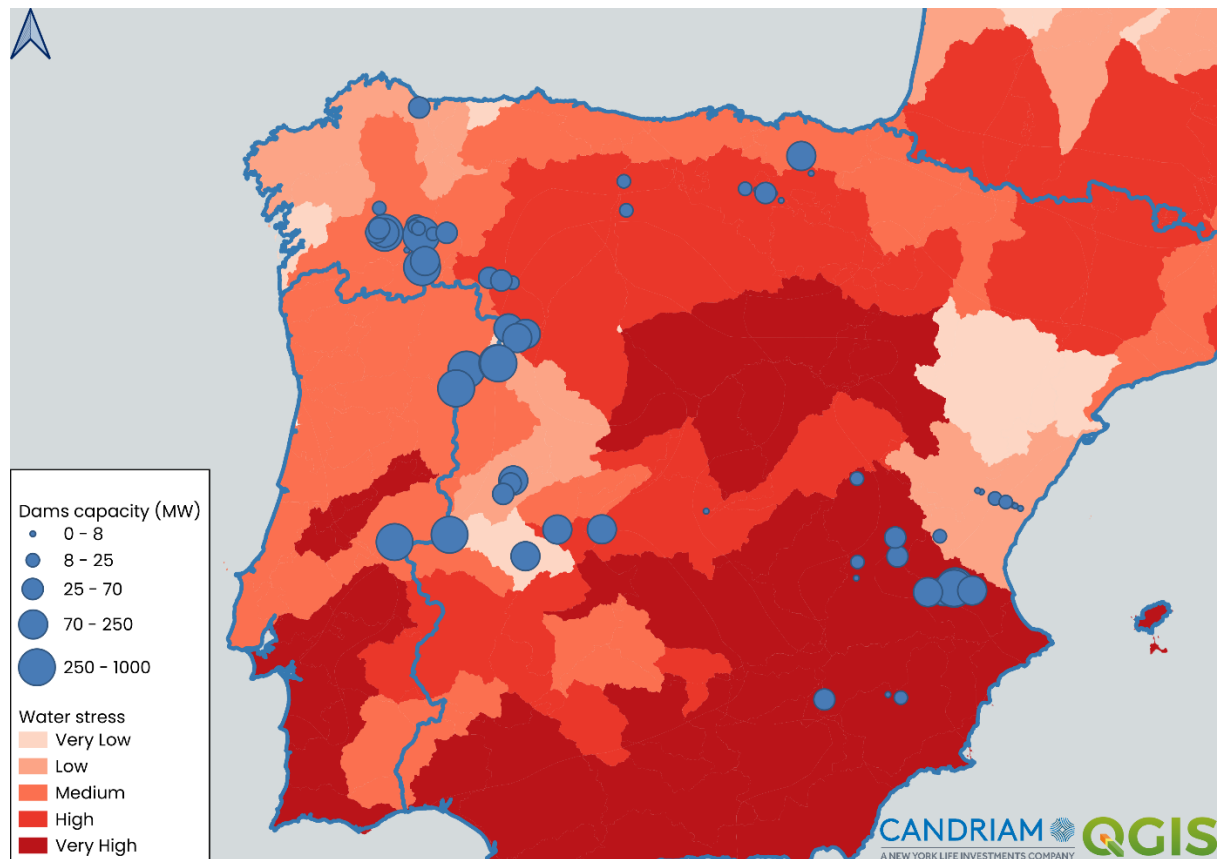


Figure 27 : Example of a company’s dams exposure to water stress

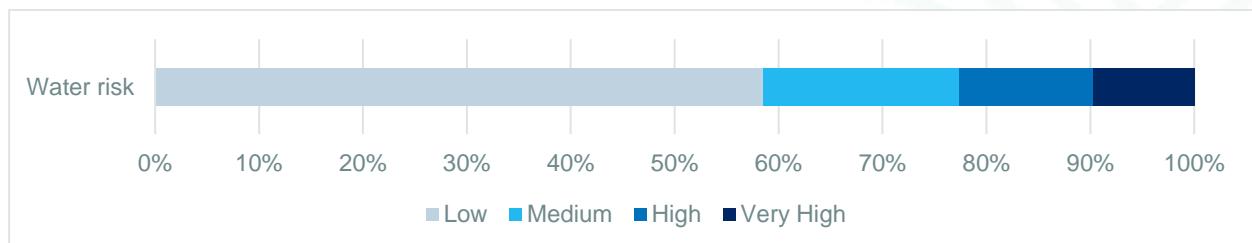


Figure 28 : Exposure to water risk of assets of companies held in article 9 funds, Acqueducts 4.0 WRI, Candriam

4.9. Pollution

Pollution encompasses a wide range of issues, including plastic waste emissions, chemical pollutants, and light pollution. The assessment of exposure and pollution management is sector-specific. However, similar to other areas, company performance is evaluated alongside the integration of pollution concerns into governance and future strategy (objectives and key performance indicators). The data utilized in these evaluations include mismanaged plastic waste, air quality metrics, particulate matter (PM) concentration, nitrogen oxides (NOx) and sulphur oxides (SOx) concentration, as well as sector-specific emission data (e.g., PFAS concentration for the chemical industry).

4.10. Restoration

In the context of a No Net Loss strategy, achieving a net neutral balance in biodiversity impact requires positive actions to reach equilibrium. According to the AR3T framework (Avoid, Reduce, Restore,



Transform), restoration efforts should come after those focused on impact avoidance and reduction. Furthermore, a sound restoration policy must align with the company's specific impacts, following a strong sustainability principle. Restoration efforts should target the biodiversity affected by the company, within the same geographical area. For example, if the company's impact is primarily due to water consumption and pollution, restoration actions should address these issues within the same region or ecosystem.

Moreover, these restoration initiatives must be credible and transparent, with measurable impacts, and should be fully integrated into the company's overall strategy and governance framework. Thus, it is advisable for companies to participate in existing restoration mechanisms established in certain countries, which provide a structured framework for the implementation of restoration processes and accountability. However, most of these national compensation and restoration mechanisms remain at a pilot stage, and in most cases, it is the individual responsibility of the company to undertake such actions.

4.11. Governance & Strategy

Integrating biodiversity into corporate **governance** is a critical step and a key indicator of a credible strategy. The company must clearly define responsibility for biodiversity matters within its organizational structure and ensure that internal communication channels facilitate the monitoring and implementation of the company's biodiversity strategy.

Strategy encompasses the elements that reflect the company's quantitative direction regarding biodiversity, including all monitoring indicators, impact assessment metrics, and the timeline, ambitions, and credibility of its objectives.

4.12. Commodity

The biodiversity analysis of a company also takes into account the impact of the product by itself. Regardless of the industry, the company's product, whether a good or a service, can influence the final evaluation. The assessment of commodities is primarily based on the life cycle analysis (LCA) of different produced commodities, along with extrapolations to cover broader categories (such as chemicals). These life cycle analyses are conducted using the OpenLCA software and Ecoinvent V3 databases for the majority of cases. The environmental impact assessment is carried out using the ReCiPe 2016 (H) method, with mid-point indicators for the establishment of impact categories and end-point indicators for comparison with other types of commodities. The allocation of the modifying effects of commodities on the emitter is based on revenue estimates associated with these commodities. These estimates are derived from the FactSet or MSCI databases, and occasionally from scientific studies depending on the context.

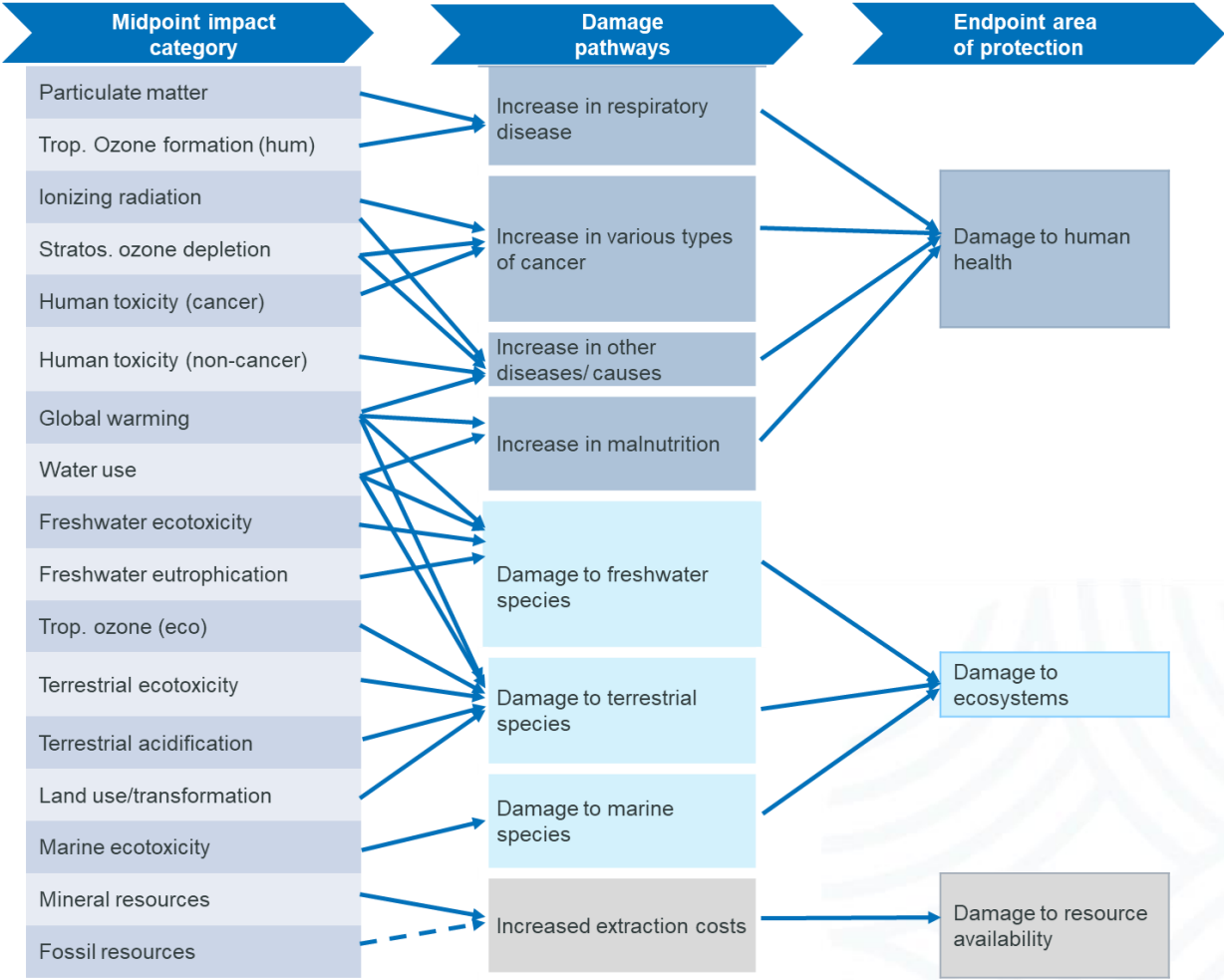


Figure 29 : Overview of the impact categories that are covered in the ReCiPe2016 method, ReCiPe 2026



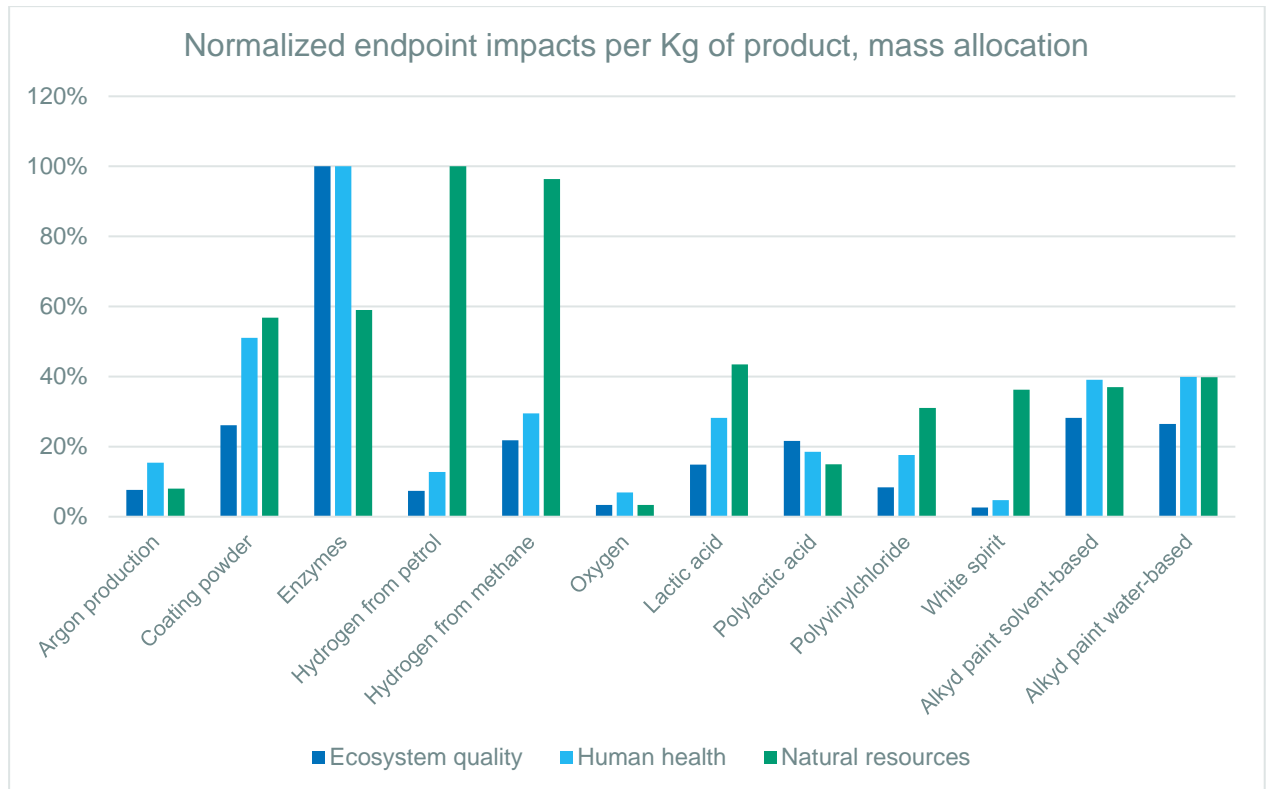


Figure 30 : Example of an application of the commodity model to the chemical sector. Source Candriam, OpenLCA, Ecoinvent V3, ReCiPe 2016

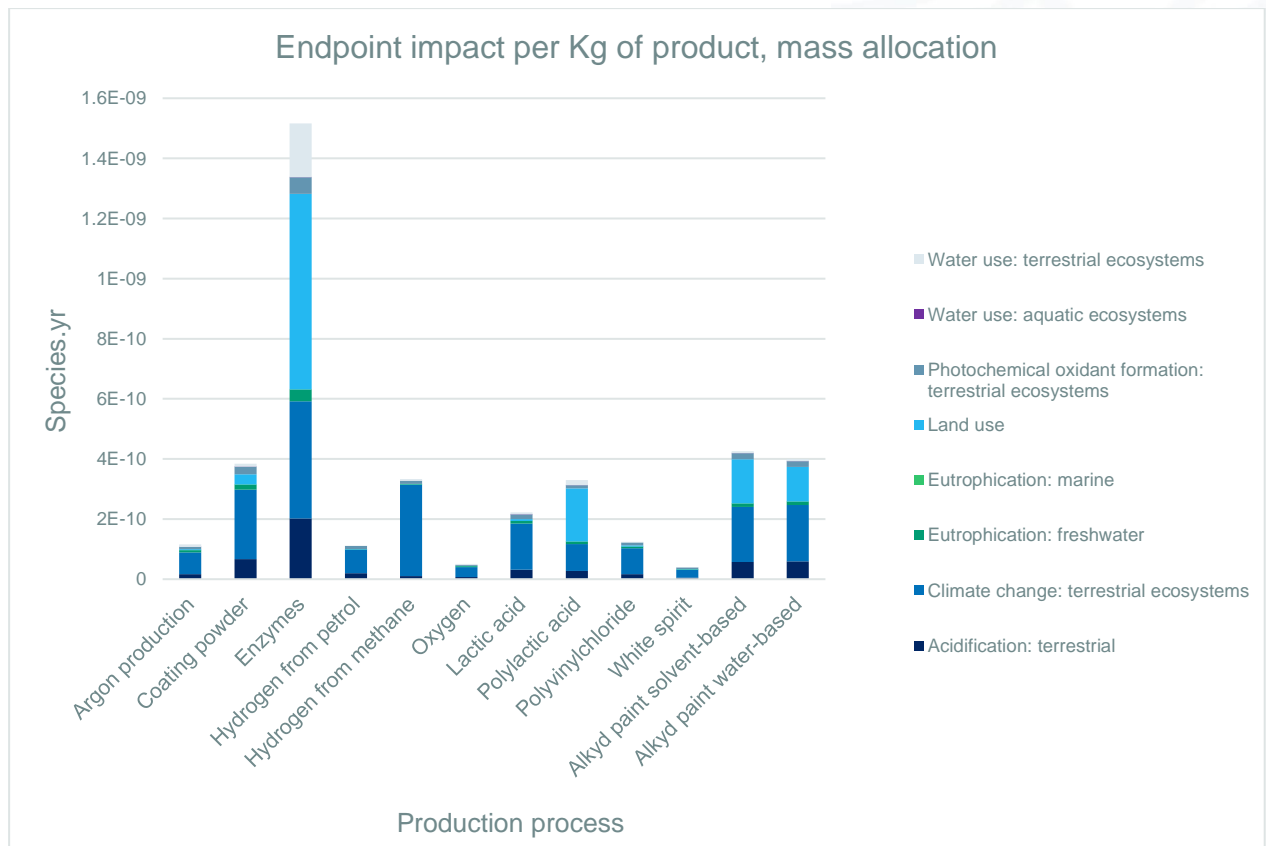


Figure 31 : Example of Ecosystem quality damage broken down by pressure by commodity (expressed in Kg produced) for the chemical sector. Source Candriam, OpenLCA, Ecoinvent V3, ReCiPe 2016



The data derived from the commodities analysis provide a deeper understanding of the biodiversity challenges linked to the economic activities of companies, particularly in terms of comparison within the same sector, which is not possible through the sole use of the BIA-GBS model. As a result, the outcomes of this analysis may lead to a more rigorous assessment and to adjustments in the weighting of the various topics when deciding how to impact the ESG score (for example, balancing the water impact against the forest impact). Furthermore, this commodity-specific analysis affects the evaluation of the company's exposure or management by altering the conditions the company must meet during scoring. This approach enables a more precise analysis based on specific impacts related to the commodities produced by the company.

4.13. Scenarios

Our analytical framework also integrates the consideration of biodiversity scenarios, with a distinct analysis for each thematic area. For instance, water-related scenarios are included in the analysis of water topics, incorporating projections of water stress for the 2030 and 2040 time horizons, as well as scenarios regarding the evolution of average species abundance and its variation relative to current levels by 2050. These scenarios are evaluated under a business-as-usual trajectory and are useful not only for existing operations but also for future projects, such as construction or mining activities. Moreover, these scenarios are contextualized with respect to the company's policies and long-term objectives.

Incorporating biodiversity scenarios into risk analysis enables more precise discussions with companies regarding the development of their biodiversity strategies and the establishment of medium- and long-term objectives, assessing their coherence with available information. For instance, a company whose operations are highly water-dependent and located in a region where access to this resource is likely to be compromised would need to present an adaptation plan that aligns with this reality.

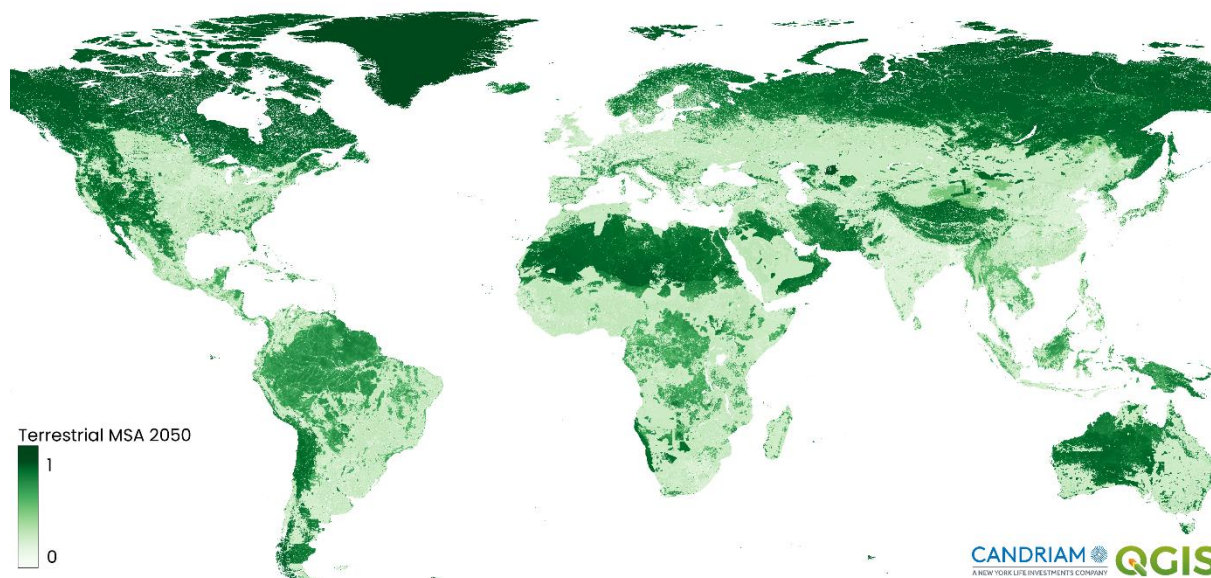


Figure 32 : MSA projection for 2050. Source : Globio

C. Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.

Due to the current limitations of models for assessing biodiversity impacts and dependencies, it is not yet feasible to evaluate the biodiversity performance of Candriam's funds as quantitative comparison tools, such as potential benchmarks. Engaging in such practices at this stage is highly risky, as the

selection of indicators plays a crucial role and could lead to greenwashing practices. For this reason, Candriam has not set any specific biodiversity performance target. However, objectives related to biodiversity have been established.

Exclude companies that are not compatible with our biodiversity strategy, such as *companies with 1% revenue exposure to pesticide or GMO production*, as well as companies with *controversial mining practices*, poor management of *deforestation exposure*, or an *insufficient biodiversity management of a very important topic* related to biodiversity.

Commitment to **greater transparency** regarding our biodiversity impacts using the BIA-GBS methodology *by disclosing the biodiversity footprint in MSA.Km² of our article 9 funds in their fund fact sheet in 2025*

Increase coverage through the LEAP method *by covering 100% of companies in high stakes sectors within our article 9 funds*

Engage with the most exposed companies in our portfolios *and conduct on that behalf engagement on biodiversity with the 20 companies most exposed to biodiversity in our sustainable funds.*



Conclusion

This report reflects Candriam's commitment to integrating biodiversity considerations into its investment policy. By leveraging its four-pillar process: Exclusion, Integration, Engagement, and Reporting, Candriam demonstrates a structured and proactive approach to addressing the critical intersection of finance and nature.

As our inaugural TNFD report, this document marks a significant step in our ambition to better account for the impacts and dependencies of our activities on biodiversity. It reinforces our dedication to aligning with evolving regulatory frameworks and advancing the integration of sustainability within investment strategies.

Recent studies on the state of biodiversity leave no doubt about the severity of the crisis, referred to as the "sixth mass extinction." It has become increasingly clear that ambitious new regulations are among the most critical levers for reshaping our relationship with nature. Whether at the global level, through agreements such as the Global Biodiversity Framework, or regionally, with instruments like the CSRD in Europe, these new regulatory frameworks are essential to push for a nature transition, with more respect for biodiversity and people.



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