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1 Context

Candriam has demonstrated its long-standing commitment to sustainable investing and development for over 20 years. The firm launched its first SRI fund in 1996 and is proudly amongst the founding signatories of the 2006 UN PRI. As a recognised leader in sustainability, the firm believes its actions should have a positive impact on all of its stakeholders.

This controversial activity policy is the concrete expression of Candriam's sustainability leadership. It defines which activities, due to their widely recognised ethical and economic unsustainability, are to be excluded from Candriam's investment portfolios across asset classes.

Candriam recognises the important role that asset managers play in tackling major global issues, such as health and climate change, and strives to be at the forefront of sustainability by advancing its policies and practices.

2 Scope of the Policy

The policy is applicable to all funds over which Candriam has the full discretion as management company and investment manager (the "Portfolios").

Except otherwise agreed between the relevant parties the following portfolios are therefore excluded from the scope of this policy:

- Funds for which Candriam is the Management Company but has delegated the investment management activity to another entity.
- Funds for which Candriam is not the Management Company but has received the investment management activity through a delegation by another entity.
- Third party discretionary portfolio mandates managed by Candriam.
- Fund of Funds managed by Candriam where the underlying funds are not managed by Candriam.

3 Controversial Activity Screening

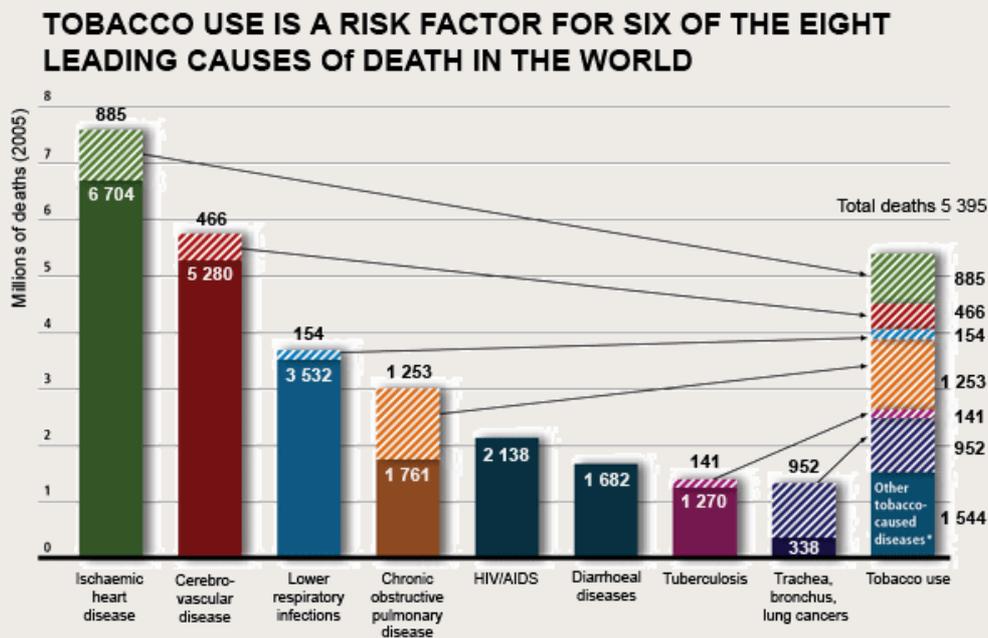
Candriam's controversial activity screening process aims to assess a company's involvement in several controversial activities in order to determine the eligibility for inclusion of a company in the Portfolios. This screening is performed on a regular and best effort basis.

This controversial activities policy covers Candriam's approach towards the following controversial activities: tobacco, thermal coal, as well as biological, chemical and other controversial weapons described in this policy.

4 Tobacco

4.1 Background

Tobacco kills more than 7 million people each year worldwide¹, i.e. 12% of annual human deaths. More than 6 million of those deaths are the result of direct tobacco use while around 890 000 are the result of non-smokers being exposed to second-hand smoke. Smokers have markedly increased risks of cancer and a higher risk of heart disease, strokes and emphysema, in addition to other fatal and non-fatal diseases.



Source: World Health Organisation²

This represents 13 deaths every minute.

A treaty on tobacco control was adopted by the World Health Organisation and signed by 168 countries “to protect present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption”.³

Furthermore, tobacco producers’ long lawsuits tail is expected to grow longer as their intentional ignorance of the harmful effect tobacco products on human health leads more and more victims to sue those companies.

The exclusion of tobacco is therefore dictated both by moral consideration, as well as economic interest.

¹ World Health Organisation, <http://www.who.int/news-room/fact-sheets/detail/tobacco>

² http://www.who.int/nmh/publications/fact_sheet_tobacco_en.pdf

³ WHO Framework Convention on Tobacco Control, adopted in 2003 by the 56th World Health Assembly held in Geneva.

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4.2 Scope of the policy

Tobacco products manufactured and retailed by companies include cigarettes and cigars, as well as other products such as chewing tobacco, creamy snuff and dipping tobacco. Cigarettes account for the largest share of manufactured tobacco products.

4.3 Candriam's exclusion threshold level

Candriam excludes from its investments all companies directly involved in the tobacco industry that derive more than 5% of their revenues from the manufacturing or retailing of tobacco products.

Candriam does not sanction a priori companies indirectly involved in the tobacco industry through supporting products and/or services (e.g. providers of packaging materials) as their operations are not solely geared towards the tobacco industry. However, if companies have developed products and production systems tailored to the tobacco industry, they will be excluded.

5 Thermal coal

5.1 Background

A distinction needs to be made between coal used in the metals industry and the coal used as combustible to produce power. In the first scenario, coal is used as part of a series of chemical reactions and as such can be difficult to replace. A prime example of this is the production of steel from iron ore. In the second scenario, coal (thermal coal in this case) represents the least efficient way to produce power from fossil fuels.

Pollutant	Coal	Natural Gas
CO ₂	6352	2348
CO ₂ with CCS capture	837	309
Carbon Monoxide	4.62	1.64
Nitrous Oxide (NO_x)	1.85	0.15
Sulfur Dioxide (SO₂)	3.08	0.02
Mercury	2.0 ounces	none

Tons per MWatt per year

Source: Penn State University, <https://sites.psu.edu/mfsblog/2015/02/09/say-no-to-coal/>

Not only does coal produce over twice as much pollutant per unit of energy as natural gas, but it is estimated that over 60% of all toxic water in the US comes from coal-fired power plants.

Whilst numbers vary depending on the methodology used, it is estimated that between 50 000 and several hundred thousands of premature deaths are directly caused by thermal coal air pollution annually. In the US alone, one

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study estimates that 52 000 lives per year could be saved if all coal power plants were replaced by photovoltaic installations.⁴

5.2 Scope of the policy

The extraction of coal for power production as well as power generation using coal as primary combustible are excluded. Synthesis of liquid or gasified fuel from coal is also excluded on a best effort basis inasmuch as it is difficult to find reliable data.

Furthermore, Candriam will ban all companies launching new coal projects. Launching is considered as effective when clear signals such as construction of a new power generation unit are identified. For others situations (permitting, announcement), we will consider exclusion on a case by case analysis.

5.3 Candriam's exclusion threshold level

Candriam excludes from its investments all companies directly or indirectly involved in the thermal coal industry, as described above, deriving more than 10% of their revenues from coal extraction or power generation from coal.

The exclusion of companies launching new projects is appreciated without a minimum revenue threshold.

Lastly, Candriam acknowledges that transitioning into a low-carbon economy requires time. For this reason, our approach also takes into consideration the energy transition strategy of the company and the implementation of explicit objectives to reduce emissions.

6 Controversial Weapons

6.1 Definition

A weapon, or an arms system, is a tool designed to injure, wound or kill an adversary. Arms systems include artillery, small arms, ammunitions, missiles & bombs, military aircraft, ships and various military vehicles. Weapons may be used to attack or defend, and consequently to threaten or protect. Although weapons can be necessary from a peacekeeping perspective, their ultimate goal of destroying or threatening human life makes them unethical and immoral.

6.2 Candriam's approach

In terms of controversial armaments, an important distinction should be made between direct and indirect involvement of a company:

Direct involvement: A company is considered to be directly involved in an armaments system when it produces / manufactures / services / sells / trades:

- complete arms systems;

⁴ "Potential Lives Saved by Replacing Coal with Solar Photovoltaic Electricity Production in the U.S.", *Renewable & Sustainable Energy Reviews*, Michigan Technological University, 2017.

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- critical components of an arms system;
- critical services related to an arms system.

Components and services are considered to be critical components / services if they display the following two characteristics:

1. components/services are specifically designed to be used within, or in relation to, an arms system;
2. components/services play a role in the lethality of the arms systems. In this case, components and services are then called “Key components & services”.

The components and services sold to military entities that are not specifically designed for an arms system and that are not key components in an arms system fall into the category “Dual-use or general-purpose goods and/or services”. The following are considered to be “Dual-use or general-purpose goods and/or services”: catering equipment & services, housing products & services, transport equipment & services, uniforms, advertising services, office computers, cleaning services, electricity equipment & services, assurance services, the organisation of weapon fairs, etc.

Producers of components and services sold for the purpose of manufacturing nuclear weapons do not fall under the scope of this policy. The production of nuclear weapons as such is currently not prohibited by an international treaty, contrary to chemical and biological weapons. Therefore Candriam deems eligible the companies involved in the production of components or services for the purpose of lawfully producing nuclear weapons for countries allowed to possess nuclear weapons under international law.

Indirect involvement: A company can be indirectly involved in armaments through shareholding:

- Shareholding: i.e. when a company owns stocks in other companies that are directly involved in arms systems and critical components / services.

When assessing a company’s involvement in armaments, Candriam’s approach also takes into account the type of armament. Candriam’s approach excludes the following controversial armaments: (1) Anti-personnel landmines, (2) Cluster bombs, (3) Depleted uranium weapons, (4) Chemical weapons, (5) Biological weapons and (6) White Phosphorous weapons. These armaments have been identified as highly controversial armaments as they have faced considerable criticism with regard to three criteria:

- The indiscriminate nature of the weapons at the time of use: i.e., when used the weapon not only strikes military targets but will also likely result in civilian casualties, damages to civilian infrastructure and other collateral damage.
- A weapon that is considered to cause both superfluous injury and unnecessary suffering.
- The potential long-term humanitarian impacts of these armaments, which can negatively impact human health and/or hinder the development and reconstruction of former war-torn regions.

6.3 Candriam's exclusion thresholds

Candriam investments exclude all companies that:

- are directly involved in the development, production, testing, maintenance and sale of any of the following six controversial weapons (1) Anti-personnel landmines, (2) Cluster bombs, (3) Depleted uranium, (4) Chemical weapons or (5) Biological weapons, regardless of the sales/revenues derived from such products, as well as companies involved in (6) white phosphorous weapons exceeding the threshold below:
 - Exclusions of companies that derive more than 5% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of white phosphorous weapons; the 5% threshold is adopted in order to acknowledge the fact that phosphorous is a dual-use substance.

7 Evaluation process and implementation

The research and evaluation process encompasses three main steps:

1. Identification of Company Involvement in Controversial Activities

Company involvement is identified using research and data sourced from external providers coupled with additional in-house analysis conducted by Candriam's Sustainability Analysis Team on a best effort basis.

2. Assessment of Company Involvement in Controversial Activities

Company involvement in any identified area of controversial activity is assessed based on a number of parameters covering the following variables:

- Type of Involvement: for each company analysed, the type of involvement (direct or indirect) is considered (e.g., owners and operators, manufacturers/producers, retailers/providers, provision of supporting products or services);
- Level of Involvement: based on the threshold approach applied to every type of controversial activity, any revenues derived from, or the production capacities of, such activities are generally used as the main indicator of involvement;
- Analysed Company Responsible Policy: for certain controversial activities, in addition to the type and level of involvement, it is also important to consider how the company approaches and considers its potentially contentious activities. Therefore, the presence (or absence) of a relevant and targeted responsible policy that acknowledges the company's involvement in an activity, as well as the existence of systems and practices undertaken to ensure that it operates in a responsible manner, are crucial elements in the assessment.

3. Final judgement of involvement

The goal of this last step is to decide, based on the three above-mentioned variables, on the acceptability of a company's involvement in one or more controversial activities. Companies that exceed the acceptable levels of

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involvement governing a Portfolio's objectives and restrictions will be excluded from that Portfolio's investment.

Once an issuer has been deemed ineligible as per this controversial activities policy, the Portfolio manager will not be authorized to increase his investment in this issuer.

A change in the final decision on the company's eligibility criteria (from "eligible" to "non-eligible") will require the Portfolio manager to sell the position within a 3-months period.

In exceptional circumstances, the Portfolio manager may request a waiver addressed to the Head of Responsible Investment & Research and Risk Management to delay the selling of positions becoming ineligible. This exception can be granted on the following grounds:

- The security is too illiquid to be sold over a 3-months period without impacting market pricing
- The security is less than a year from maturity on the day of the change from eligible to ineligible.



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