30 OCT 2018

Asset Class , Fixed Income , Nicolas Forest

ESG FACTORS AS A REMEDY AGAINST POPULISM

Not since the 1930s has the world been faced with such a wave of populism. The Italian budgetary crisis over the past few weeks is neither an accident, nor an exception. Investors would be making a serious mistake in underestimating this issue. With just 8 months before the European elections, the so-called populist movements are in vogue across the continent. Several parties are within striking distance of securing power, including the Rassemblement National and La France Insoumise in France, along with the Northern League and the 5-Star Movement in Italy, AfD and Die Linke in Germany, UKIP in the UK, Podemos in Spain, PiS in Poland, Fidesz in Hungary, Syriza in Greece, FPO in Austria, PVV in the Netherlands and Vlaams Belang in Belgium. Populism is also progressing in the US and in Latin America (of which the recent victory of Jair Bolsonaro in the Brazilian presidential elections last weekend is the latest proof).

Research by Bloomberg[1] demonstrates **41% of the GDP in G20 countries is currently in the hands of populist governments** compared to only 4% in 2007. According to the watchdog Freedom House, political rights and civil liberties deteriorated sharply in 2017, returning to 2007 levels, or those before the the collapse of the Soviet bloc if we include the further downturn observed in 2018.

Populism is popular. It manifests itself in the form of doubt over the independence of the central banks, criticism of supranational institutions and the rise of protectionism. The Trump administration is a perfect example, with the President's unprecedented criticism of the Fed and additional taxes on Chinese imports. However, although Donald Trump perfectly echoes the populist threat looming over our democracies, he must not be considered as the root of these developments, but only as a symptom. The end of his tenure, whether at the end of this mandate, future mandates or more immediately, will not resolve the root cause which go far deeper as history will no doubt reveal.

Inequalities

According to Oxfam, global inequalities have increased significantly over the past decade. 82% of wealth created last year benefitted the richest 1% of the global population. Although 2017 saw the sharpest-ever rise in the number of billionaires, revenues among the middle and working classes increased only slightly and government states tended to become poorer. While poverty has decreased overall during the past decade, inequalities have significantly increased. The central banks' exceptional asset purchase programmes succeeded in bailing-out the financial system, but they have failed to curb the increase in inequalities, which have become the breeding ground for populist parties. With financial markets reflecting some initial signs of volatility recently, how should fixed-income investors view this political context?

Impact on debt

While economists debate the end of the US cycle and a probable recession, it would be wise to consider the impact of political risk, which is at least as important as economic risk, on the markets and on the broader economy. Fixed-income investors must consider 2 key questions in order to determine the risk of an investment. **Can the issuer** (sovereign in this case) **reimburse the debt?** Can it afford it? And, **does it intend to?**

The first question is obviously a key consideration in bond analysis. Mathematically, redemption capacity is determined by the primary budget, nominal growth and the cost of debt. We have observed that **the current wave of populism is triggering budgetary expansion.** Deficits in the US, Italy and China are being weighed down heavily by massive tax spending. The trend is unprecedented in terms of context rather than the extent of the deficits. The US has otherwise never launched budgetary stimulus measures with unemployment at such a low level (below 4%) in the past 50 years. Similarly, the Italian government calling a halt to austerity, with debt at almost 130%, has never been seen since the European Union was created. Overall government debt is therefore not due to diminish. Countries with control over their currency can always reimburse debt with a sharply depreciated currency. This solution is now impossible for eurozone members such as Italy.

The second question is more complicated. **A government's willingness to reimburse its debt depends greatly on the quality of its governance** and its capacity to honour its commitments. The rise in populism could undermine this willingness. Historically, the number of defaults surged in Europe during the 1930s and 40s, primarily due to political changes. This was the case in Austria and Germany with the rise to power of fascist governments. This was also the case in Russia in 1918 when the Bolshevik government simply refused to reimburse debt issued by the Tsarist regime. More recently, financial imbalances and poor governance have led to a series of defaults in Africa and Latin America.

We believe that the Italian issue is therefore a question of goodwill. Does the government, along with the Italians, wish to remain in the European Union? According to an opinion poll conducted by Eurobarometer / ASR, only 30% are in favour of an Italexit, compared to less than 10% in Germany. While this figure appears insignificant, it is worth noting that according to some opinion polls conducted back in 2015, only 35% of British people wished to leave the EU. Italy's loyalty could be undermined by a further financial crisis or a recession. Political comments on this front will have to be closely watched, as we believe that Italy's solvency would clearly not resist leaving the European Union.

As a bond investor, it is now all the more indispensable to take governance, social and environmental criteria into account within our analysis. As well as assessing debt sustainability, we also consider the level of corruption of a country, the degree of freedom and the respect of civil liberties, along with central bank independence and the respect of institutions. To comply with the UN's objectives, an analysis of a country's social protection and wealth distribution is also a determining factor. Environmental criteria will increasingly weigh on sovereign debt while natural resources and pollution management are also major issues for governments. All developed and emerging economies are facing these same challenges. Increasing inequalities, the surge in populism leading to deteriorating governance and systemic risks associated with climate change will all unfortunately lead to payment defaults over the coming years. Considering ESG criteria into our fixed-income management is no longer an option. It has become a necessity.

https://www.candriam.de/en/professional/market-insights/topics/fixed-income/esg-factors-as-a-remedy-against-populism/

Corporate , Environment, Social and Governance , SRI , Asset Class

12 Sept 2018

CANDRIAM DIVESTS FROM COAL AND TOBACCO

CANDRIAM announces that it will extend the scope of controversial activities exclusion for all its assets to thermal coal, tobacco and chemical, biological and white phosphorus weapons.

CANDRIAM's exclusion policy, which has been successfully implemented for nearly 20 years for SRI-invested assets, and which has enabled the company to become an industry leader in this field with €30 billion in AUM on pure SRI strategies, is now extended to all the company's active, smart-beta, indexed and alternative strategies (€113bn as of June 30, 2018). The new measure will be fully implemented by 31 December 2018.

Commenting on the decision, **Naïm Abou-Jaoudé, CEO of CANDRIAM and Chairman of NYLIM International**, said: "*Excluding coal and tobacco from our mainstream investments is part of our commitment and shows our ambition of being a sustainability leader. Coal is the most polluting energy source and the first stranded asset in an energy transition pathway, while the harmful effects of tobacco are increasingly exposed. We recognise the important role asset managers play in tackling major global issues such as health and climate*."

Scope of the exclusion

CANDRIAM will introduce homogeneous exclusion thresholds for the full scope of its assets under management. The exclusion of thermal coal is based on an exposure level (direct and indirect) of maximum 10%. Furthermore, CANDRIAM will ban all companies launching new coal projects. Exclusion of tobacco targets manufacturers as well as their suppliers.

A leader in Sustainable and Responsible Investing (SRI) since 1996, CANDRIAM has built over the years one of the largest dedicated teams in Europe and the broadest range of SRI strategies in Europe. Candriam's strong commitment to SRI has led the company to always integrate ESG criteria throughout the investment processes of its mainstream products. More recently, CANDRIAM decided to donate 10% of revenues from its SRI funds to initiatives related to research and education on SRI and social inclusion projects.

The exclusions are aligned with recent engagements and commitments made by CANDRIAM, such as the World No Tobacco Day, the Montreal Carbon Pledge, the Climate Action 100+ or the Investor Agenda Initiative. Candriam strongly believes that long-term sustainability trends can have a major impact on the performance of companies and is committed to allocating capital towards sectors that do not contribute to adverse effects on society.

Vincent Hamelink, Chief Investment Officer – Investment Management concluded: "*Over the years we have witnessed a growing concern over involvement in a range of controversial activities. At CANDRIAM we believe that the health, social and environmental costs are key in a risk-return analysis. Extending our divestment strategy to our mainstream funds is a logical next step as investments in these companies are increasingly incompatible with our long-term risk/return objectives and our sustainability targets such as the 2 Degrees Initiative*."

https://www.candriam.de/en/professional/market-insights/topics/sri/candriam-divests-from-coal-and-tobacco/

23 FEB 2018

Candriam's support for two FAIRR initiatives that promote human causes

Candriam has signed up to two FAIRR (Farm Animal Investment Risk and Return) initiatives designed to combat the systematic use of antibiotics in agricultural supply chains and promote more sustainable protein diversification. The aim here is to grant the public access to sustainable food of substantial nutritional quality.

Founded in 2015, FAIRR deals with factory-farming issues. Scandals such as avian flu, swine flu and horsemeat consumption have shown how value-detracting industrial-production methods can be. FAIRR, working alongside ShareAction, is coordinating a collaborative engagement initiative comprising 60 investors and 16 of the world's biggest food companies. Investors believe that the time has come for food-sector companies to start thinking strategically about setting up supply chains with reduced underlying risks.

You can view FAIRR's most recent report – Plant-based Profits: Investment Risks & Opportunities in Sustainable Food Systems here.

Supporting initiatives like these gives Candriam a further opportunity to showcase its values and demonstrate its support for human causes.

https://www.candriam.de/en/professional/market-insights/topics/sri/candriams-support-for-two-fairr-initiatives-that-promote-human-causes/

10 JAN 2018

CANDRIAM COMBATTING CHILD LABOUR

Candriam has joined 60 of its financial-institution peers in their stance taken against child labour by endorsing the recent GES (Global Engagement Services) report: "*Combatting child labour – Investor expectations and corporate good practice*".

This document is aimed at companies in the cocoa sector. It is not the first time that this sector has come under fire for its use of forced child labour. More than 2 million children are currently exploited by this industry under appalling conditions, especially in West Africa.

Following numerous contacts and meetings with companies in the cocoa sector, GES has highlighted, in its report, investors' expectations of cocoa-producing companies, irrespective of size. These companies must henceforth demonstrate greater transparency in their employment policy, progress in their anti-child-labour efforts across the whole cocoa supply and production chain and undertake to pay farmers a fair wage.

The report, in other words, aims at better regulating the sector and highlights steps that are being, and that will be, taken by stakeholders (e.g., governments, signatories to the report and cocoa-sponsoring companies) to improve current working conditions.

Lending its support to such an initiative gives Candriam yet another opportunity to project its values and demonstrate its support for the protection of human rights.

https://www.candriam.de/en/professional/market-insights/topics/sri/candriam-combating-child-labour/

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

17 OCT 2017

CANDRIAM LAUNCHES ACADEMY FOR SUSTAINABLE AND RESPONSIBLE INVESTING

Candriam Investors Group launches the **Candriam Academy**, the world's first free-to-access accredited training platform for Sustainable and Responsible Investing (SRI).

The Candriam Academy aims to raise awareness, promote education and improve knowledge of financial intermediaries on the topic of SRI via an innovative online platform of inspiring and actionable content and materials. Although conceived with the needs of intermediaries in mind, the platform is free and open to all.

A study carried out by Candriam in 2016, showed that although more than 60% of distributors were convinced of the added value of SRI and more than 70% foresaw an increase in such funds over the next 10 years, distribution remained limited because of a lack of available information. The Candriam Academy aims to raise awareness on SRI and demonstrate how it fits within a performing client portfolio.

Naïm Abou-Jaoudé, CEO of Candriam Investors Group, says:
"*Economic agents have an important role to play in ensuring the development of a sustainable and responsible economy. As an asset manager, this is a responsibility we take very seriously at Candriam. We believe in the importance of promoting sustainable investing and the Academy will allow us to raise further awareness and improve best practice among the financial community*."

The Academy will provide different modules as an in-depth introduction to SRI. At the end of each module, a minimum score of 8/10 is required to complete the course and receive a certificate. The Academy has received accreditation by the Chartered Institute of Securities and Investment (CISI) and is requesting further local accreditations. The platform is currently available in English and Italian, and will be soon in French.

Wim Van Hyfte, Global Head of Responsible Investments and Research, says:
"At Candriam we have the deep conviction that sustainable and responsible investing is not only a good thing for the world, but it is also the driving component of a successful long term investment strategy. With that in mind we developed Candriam Academy to help train the next generation of responsible investors."

https://www.candriam.de/en/professional/market-insights/topics/sri/Candriam-launches-Academy-for-Sustainable-and-Responsible-Investing/