



SUSTAINABLE GROWTH

For many, the case for investing using sustainable & responsible investment (SRI) criteria is as much financial as it is ethical. But there is more: Candriam's **BART GOOSENS**, Global Head of Quantitative Equity Management and **ISABELLE CABIE**, Global Head of Sustainable & Responsible Investments, discuss the powerful 'double alpha' potential of a combined SRI and quantitative investment approach.



Why should equity investors consider an SRI approach?

The rationale for SRI is simple but powerful: a company's business activities are sources of both opportunities and risks. But all of these cannot be fully evaluated using traditional financial metrics alone. This is where SRI analysis comes into play.

By in-depth analysis performed by SRI specialists on environmental, social and corporate governance in each sector, we are able to identify risks and opportunities that traditional financial analysis cannot. In short, companies that rank highly on SRI criteria are more likely to deliver the sustainable profits growth over the long term that equity investors prize so highly.

What should investors look for in an SRI manager?

To properly assess risks and opportunities, which are often ignored by traditional financial analysis, we are advocates of the key qualities of depth of specialist experience and a proven process. This is why Candriam has been a pioneer in the sustainable investment world since the launch of our first SRI fund in 1996, developing over the years our very own SRI approach.

What differentiates Candriam's approach to SRI?

With an extensive and proprietary database built up over nearly two decades, we are constantly looking forward, in order to improve the quality of our SRI analysis.

Since 1996, we have methodically expanded our analysis of 'micro' SRI criteria. This is why we examine the extent to which each company manages its stakeholder relations and takes their interests into consideration. Based on this analysis, we select the companies in each sector that excel in SRI terms.

In 2008, we integrated 'macro' factors into our SRI selection process. This approach considers a company's ability to manage global sustainability trends such as climate change, demographic trends and resource depletion, and adapt them to its business model.

We are also firm believers in sector-specific SRI models and analysis. Generalists lack the depth of understanding of industry issues particular to sector, who provide

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important insights and shed light on the challenges specific to each sector. Adjusting the weighting of each SRI criterion by sector can further improve the accuracy of SRI analysis.

We select the companies with the top 35% scores in each sector to create a 'best-in-class' SRI universe whose overall sector structure remains in line with the underlying benchmark or universe. This unique analysis is then supplemented by a normative and controversial activities check.

What are the benefits of a quantitative approach to this best-in-class SRI universe?

Global equity investors face an "information overload" that makes the search for relevant performance drivers more difficult. For some investors, this may even lead to short-termism and decision-making that is overly reliant on emotions and unconscious biases. These are the problems our quantitative investment team attempts to overcome. It does so by basing decisions on a diverse range of proven and objectively identified criteria that are exploited in a systematic and consistent manner, within

the universe of best-in-class sustainable businesses created by our SRI analysis.

This involves tracking over 150 factors grouped into 10 alpha drivers covering proven core financial analysis, quality measures, technical indicators and valuation criteria. And we share with our SRI analysis process the same belief that tailoring each model to each sector produces a number of important benefits. These include an awareness of the different economic factors affecting different sectors and a diversification of the risk of model failure.

Overall, we describe this as an "all-weather" approach to stock selection in that, through the diversity of factors, it is specifically designed to generate alpha in differing market conditions.

How valid can this 'Double Alpha' potential be?

In the wide range of investment solutions proposed to investors, the combination of a dual Quant and SRI analysis is quite a unique offering. It is also an approach that has been successfully tried and tested in our World and North America sustainable equity strategies for several years now.

In short, our global SRI funds are invested in stocks that are attractive from both an SRI and a Quant perspective. This is an effective way of capturing the alpha from the two different but complementary approaches. Many SRI criteria are more "qualitative" and difficult to realise with a quant approach. The quant strategy, on the other hand, does systematically zoom in on the factors that drive performance not captured by the SRI analysis.

Provided we keep improving our SRI and Quant tools as we have done over the last decade, identifying the relevant risks and opportunities through our SRI analysis, and then building portfolios with our all-weather Quant approach, our global SRI funds should remain consistently rewarding for investors, tomorrow as they are today.

FIND OUT MORE ABOUT
OUR FUNDS AND
THEIR RISK PROFILES:



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