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1. INTRODUCTION TO CANDRIAM'S ACTIVE OWNERSHIP

Candriam Investors Group has been a pioneer in the field of Sustainable and Responsible Investment (SRI) since 1996 and is committed to being a responsible financial asset manager by investing for the long term. Candriam's SRI philosophy is based on the idea that a company's long-term value is not affected purely by financial criteria such as revenues and margin growth. Candriam strongly believes that, by taking into account environmental, social and governance (ESG) criteria, additional factors that affect a company's long-term value and competitiveness are identified – factors that traditional financial analysis sometimes fails to highlight. This is why we continuously promote the synergies between our SRI and traditional investment activities.

In this context, Candriam SRI engagement activities represent a key part of how we secure long-term stable returns for our investors. Candriam's sustainability analysts engage directly with companies in order to raise their awareness and transparency, and solicit their reflection and accountability on specific sustainability-related themes.

The engagement activities undertaken by Candriam to monitor its clients' investments in companies can take different forms:

- **Dialoguing with companies:** SRI analysts at Candriam dialogue directly with companies in order to raise their awareness about ESG issues. Candriam encourages issuers to think about these matters, and to adopt transparency in an attempt to, indirectly, have them assume responsibility when it comes to specific ESG-related themes.
- **Joining collaborative engagement initiatives:** Candriam has signed many high-level collaborative engagement initiatives to interact with other large investors on a non-discretionary basis.
- **Exercising voting rights:** Candriam has been engaging with companies since 2003 through an increasingly elaborate active proxy-voting policy that upholds the principles of good corporate governance and sustainable development. Worth mentioning is that post-proxy-voting season engagement activities have been developed since 2012.
- **Promoting sustainable development:** Candriam is an active player in industry ESG debates and in the promotion of ESG research.

In 2015, Candriam took a step further, in its promotion of three long-term engagement topics at company level: Corruption, Energy Transition and Well-being at Work.

- **Corruption:** Candriam strongly believes that weak anti-corruption practices may limit or threaten the creation of value at company level in the medium/long term.
- **Energy transition:** Candriam believes that responsible investors have a major role to play in the transition to a low-carbon economy.
- **Well-being at work:** Candriam believes that focusing on well-being at work can benefit companies by helping working individuals to feel happy, competent and satisfied in their roles. The evidence shows that people whose well-being at work is more than adequate are likely to be more creative, more loyal and more productive, and to provide a better

level of customer satisfaction than those whose personal and professional well-being in the workplace is somewhat neglected.

These conviction topics, which will also be the special focus of Candriam's Sustainability Analysts' dialogue with companies, will be taken forward in the years to come.

In addition, again in 2015, Candriam initiated a special focus on companies classified as "Inline" in our SRI selection, representing the bottom line companies of Candriam's SRI universe (Top 50% of our selection). These companies present some shortcomings in terms of ESG best practices. Engaging with those companies increases our chances of a positive outcome for our engagement activities.

2. CONTACTING COMPANIES – RAISING AWARENESS ABOUT ESG ISSUES

Candriam uses engagement in the course of its sustainability analysis process (Best-in-Class, Norms-Based and/or Controversial-Activities analysis). "Engagement" takes the form of a dialogue between sustainability analysts, company representatives and other stakeholders. The goal is to increase a company's awareness as well as its transparency on specific sustainability-related themes.

2.1 Candriam's engagement policy and process

Candriam's engagements are both proactive (seeking further disclosure and when our analysis has identified companies' weaknesses) and reactive (when controversial news appears in the media). Most of the time, Candriam engages with CR/IR managers or company chairmen, through e-mail exchanges, conference calls and one-on-one meetings. Nevertheless, if necessary, company stakeholders are also contacted.

Following contact with a company, an assessment is performed. Candriam's sustainability analyst identifies the next steps to be carried out in order to pursue the engagement activity and therefore define a related engagement timeframe.

Candriam's sustainability analysts monitor their engagement activities by checking the company response (if any), the appropriateness of this response, the eventual impact on the company's behaviour and, lastly, the impact (if any) on the company's analysis procedure.

CANDRIAM'S ENGAGEMENT POLICY

The formal process for identifying and prioritising the engagement activities carried out by internal staff is based on the classification provided by the Principles for Responsible Investment (PRI)¹:

1) Encouraging improved ESG disclosure

This is the first step in Candriam's engagement activities, which, aimed at improving the ESG disclosure process, are usually performed at the beginning of the sustainability analysis process or research project. Candriam's sustainability analysts contact companies when:

- a) there is a lack of disclosure or when certain information is not immediately available;
- b) there is a need to obtain a precise and determinate piece of information or response to an enquiry during the controversial activities analysis process;

¹ As defined by the PRI.

- c) the seriousness of a recent event requires a response/statement from company representatives;
- d) a research paper on a specific ESG issue/topic has been drafted. The main actors involved in the activity under analysis are contacted in order to gather pertinent information about the issue, not easily obtained otherwise.

2) Supporting investment decision-making

The engagement activities undertaken by Candriam on supporting investment decision-making are usually performed at the end of the analysis process or when a decision has to be made following the occurrence of an event deemed controversial. This kind of engagement activity – part of step 2 of Candriam's engagement process – is carried out systematically.

Specifically, if the engagement activity seeking to improve ESG disclosure is not successful (and, thus, the lack of disclosure remains or the company has not behaved properly vis-à-vis a particular issue), the company's name is added to the watchlist, where it will be closely monitored by the sector's sustainability analyst. In such cases, the company will systematically be re-contacted after six months. If it continues to fail to provide an answer in a timely manner or to take a different stance towards the controversial issue (and, as a consequence, the engagement continues to be unsuccessful after a renewed 6-month period), Candriam's sustainability analyst might decide to exclude the company from the SRI universe.

3) Influencing corporate practice on ESG issues

Engagement activities undertaken by Candriam on influencing corporate practice on ESG issues are performed throughout the year.

- a) When there is a serious issue at a company or when a new ESG topic has arisen that the sustainability analysts believe is worth monitoring, they will contact the issuer's peers or issuers during the coverage process to warn them about the issue in question and learn which are the main measures adopted by the company in terms of prevention.
- b) After the proxy-voting season, sustainability analysts systematically send letters to board chairmen to explain the rationale behind specific controversial voting recommendations. The purpose of the letters is also to push the company's limits and to influence corporate practice by disclosing Candriam's point of view on any given issue.

Two special areas of focus of Candriam's engagement activities:

1) Candriam's Conviction topics: Candriam has gone one step further, and is now starting to promote three long-term engagement topics – (stakeholders, financial and SRI analysts) – for dialogue at company level:

Corruption:

Candriam strongly believes that weak anti-corruption practices may limit or threaten the creation of value at company level in the medium/long term. This topic is a serious issue as it may involve significant risks: 1) Reputational risk: a boycott of the company and a loss of confidence in top management; 2) Operational & financial risks: blacklisting and potential ban from bidding, seizure of assets, dismissals of top managers; 3) Legal risk: justice procedures and associated substantial costs and fines.

Corruption is already a major topic of SRI analysis dialogue and will remain so over the next few years. Candriam's SRI analysis already takes into account the Corruption theme in its Stakeholder Management analysis (micro analysis) in the Investors (Corporate Governance) and Society (Public Authority Relations) domains. Corruption, furthermore, is also a source of exclusion in the Norms-Based Analysis process.

Energy Transition :

Candriam believes that responsible investors have a major role to play in the transition to a low-carbon economy. Energy Transition is intended to reduce the amount of energy needed to provide products and services. By using energy more efficiently, energy bills can be lower, reliance on external suppliers of oil and gas reduced and the environment protected.

It is a topic covered in that part of Candriam's SRI analysis that focuses on companies' business models: Candriam Sustainability analysts study these to see whether they are designed to cope with global sustainability trends (macro analysis). But it is also a topic studied in that part of the Stakeholder Management analysis process that focuses on the Environment (Energy & Climate Change).

Well-being at work:

Candriam believes that focusing on well-being at work can benefit companies by helping working individuals to feel happy, competent and satisfied in their roles. The evidence shows that people whose well-being at work is more than adequate are likely to be more creative, more loyal and more productive, and to provide a better level of customer satisfaction than those whose personal and professional well-being in the workplace is somewhat neglected.

Candriam's SRI analysis takes into account well-being at work when allocating an Employee domain score, in its Stakeholder Management analysis.

2) Companies classified as InLine in our SRI selection: In addition, again in 2015, Candriam initiated a special focus on companies classified as "Inline" in our SRI selection, representing the bottom line companies of Candriam's SRI universe (Top 50% of our selection). These companies present some shortcomings in term of ESG best practices, the goal being to increase their awareness and accountability on specific ESG-related themes. Dialoguing with these companies increases the chances of improved ESG practices. These companies represent a source of potential opportunity for investment.

2.2 Candriam's 2015 engagement activities

In 2015, Candriam engaged with 64 companies via conference calls, company visits and e-mail exchanges.

Region	2015	2014	2013
Europe	56%	77%	79%
North America	30%	6%	13%
Asia Pacific	12%	5%	3%
Emerging Markets	2%	12%	13%

Most of the companies contacted were European, the rest mainly North American, issuers. Contact was prompted by the completed Candriam sector reviews and the controversial events that occurred in 2015.

Type of engagement - Reason for Contact	2015	2014	2013
Encourage improved ESG disclosure	86%	55%	64%
Support investment decision-making	8%	18%	23%
Influence Corporate Practice (inter alia, by sending out letters to board chairmen)	6%	27%	13%

The main reason for contacting issuers was disclosure, followed by a wish to support investment decision-making. Compared to 2013 and 2014, we can notice how "encouraging ESG disclosure" remains the main issue encountered in Candriam's sustainability analysis process while, engagement activities "done with the purpose of supporting investment decision-making" have significantly decreased, due mainly to the company having initiated new dialogues during sector reviews and to its having contacted companies classified "InLine" in our SRI universe and thus requiring more ESG disclosure (13%). Proxy Voting Engagement activities (sending out letters to board chairmen) represent 6%, as companies contacted for Conviction topics themes.

Special context for dialogue	2015
SRI sector reviews/Controversial Events	75%
"In Line" Classified Companies In SRI selection	13%
Conviction Topics	6%
Proxy Voting Engagement	6%

As regards engagement-activity breakdown by E, S and/or G issues, Governance – being an important factor in Candriam's SRI analysis framework – remains the main topic in 2015, while there has been an increase in the Controversial Activities contacts, more specifically on the grounds of exposure to armament, nuclear and animal testing.

ESG breakdown of the companies contacted	2015	2014	2013
Environment	2%	10%	10%
Social	6%	20%	8%
Governance	15%	30%	32%
Overlapping ESG issues	63%	30%	27%
Other (Controversial Activities)	14%	10%	23%

2.3 Main topics of the 2015 dialogue with companies and their stakeholders

- **Employee Turnover and Client satisfaction in the Commercial Services and Supplies sector**

In the first half of 2015, Candriam's sustainability analyst for the Commercial Services and Supplies sector contacted three US companies in order to improve ESG disclosure on employee turnover and client satisfaction. In the summer of 2014, Candriam's Commercial Services and Supplies sustainability analyst actually contacted 13 European companies well positioned in our Global Sustainability Trend Analysis (macro analysis) process, asking them to disclose more about their stakeholder management process. The analyst took into account the answers (and non-answers) received during the course of the company assessment procedure.

That same analyst also contacted six issuers on the subject of exposure to weapons and animal testing in order to have more disclosure and information for its analysis. More specifically, the questions asked were:

- Weapons: 1) Which type of equipment do you supply to military clients? 2) How much of your FY2014 revenues did the military division account for?
- Animal Testing: Does the company carry out Animal Testing (AT)?

All companies contacted answered the questions, thus helping the sustainability analyst in the company's investment decision-making. As a result, companies were assessed as compliant with our maximum accepted level.

- **Organic and Vegetarian Food in the Food and Staples Retailing sector**

In 2015, Candriam's sustainability analyst for the Food and Staples Retailing sector decided to do a disclosure survey on the type of food a company proposes, if it offers vegetarian, organic and/or substitute products to meat and which is the percentage of meat-related products. Candriam's sustainability analyst sent these questions to companies in the four regions covered: Europe, North America, Asia Pacific and Emerging Markets.

Our analyst wanted comprehensive information for her sustainability analysis in order to be able to perform an adequate

Candriam Global Sustainability Trend Analysis and thus classify the companies' behaviour on this topic.

- **Health & Safety and GHC emissions In the Construction Materials sector**

More disclosure on Health & Safety and Environment KPIs

In the second half of 2015, Candriam's sustainability analyst for the Construction Materials Sector contacted **CRH**, **Heidelbergcement**, **Lafarge/Holcim** and **Vicat** in order to encourage improved ESG disclosure.

The companies were contacted over specific KPIs used in the sector analysis process, notably the Health & Safety and Environment KPIs (GHG emissions). All four companies responded to the enquiries, and the data collected helped provide a more thorough analysis.

Controversy linked to a minority investment in an Israeli company

In October 2015, Candriam's sustainability analyst for the Construction Materials Sector contacted the company **CRH** since it had been involved in a controversy linked to a minority investment in an Israeli company, Mashav. Mashav has 100% ownership of its subsidiary Nesher Cement, the sole producer of cement in Israel and Palestine. The company is criticised for providing cement that was used in building a separation wall in Israel that is believed to impinge upon Palestinian rights to freedom of movement.

The company replied and was available to clarify in detail all the points discussed. They clarified that: 1) **CRH** does not own any shares in Nesher; 2) As the sole cement producer in Israel, Nesher must not discriminate and is obliged by law to sell cement to all customers who want to buy cement from it; 3) Cement is sold in powder form (bulk and/or in bags). Nesher supplies its cement on an ex-works basis (i.e. it does not deliver cement to its customers). Accordingly, it does not control its downstream application and cannot track or limit the use to which its cement is put; 4) Cement is used mainly to manufacture concrete and is but one of several ingredients in that process. Concrete is used – inter alia – in the construction of buildings and other structures.

It is worth noting that **CRH** has sold its stake since then. The company denies reports that it sold its stake for political reasons, stating that the disposal was part of its "multi-year streamlining plan".

2.4 Tracking our engagement activities

Candriam keeps track of its engagement activities through two main indicators:

- **The percentage of engagements continued from previous years**
- **The percentage of engagements that have had an impact on CANDRIAM's SRI analysis process**

In 2015, 97% of company dialogues dated only from 2015 while 3% of engagement contacts were continued from previous years. Candriam's sustainability analysts continued fewer dialogues than in 2014 (8%), as we had started to focus on "InLine" classified companies in our SRI universe.

Candriam's sustainability analysts have re-contacted companies on significant issues in order to check whether there has been an improvement/progress in dealing with the matter or to resume contact with the company when answers are not forthcoming.

Among the 97% of engagements started this year, 63% were done during sector reviews, 34% while monitoring the companies under Candriam's coverage and 3% through having been contacted by investor relators.

These engagements have given the sustainability analysts valuable insight into the company that would otherwise not have been obtained. Thanks to the companies' feedback, our analysts obtained more thorough and detailed information on the issuers analysed, which was then used in most cases during the sector reviews.

The following table gives an overview of the engagement contact status over the years:

Direct dialogue with companies: From Initiation to Influence	2012	2013	2014	2015	2016	2017
Sector reviews/Special research topics						
CHEMICALS – ESG issues						
ENERGY – Artic						
ENERGY – Shale gas						
FOOD & STAPLES RETAILING						
HOTELS RESTAURANTS – Asset Light Model						
UTILITIES – Nuclear safety & Water treatment						
Conviction topics						
CORRUPTION						
ENERGY TRANSITION						
WELL BEING AT WORK						

3. JOINING NEW COLLABORATIVE ENGAGEMENT INITIATIVES

Candriam is committed to joining investors' groups and to supporting collaborative engagement initiatives whose goals are to encourage companies to improve their disclosure on any sustainable development-related challenges that might impact companies' long-term value. Since 2004, Candriam has signed **35 or so collaborative initiatives** to, jointly with other investors, encourage companies to improve their disclosure on **ESG challenges** and elevate **ESG standards**. The final objective is to increase companies' awareness and influence their behaviour as well as their transparency on specific sustainability-related themes related to Best-in-Class analysis and to Norms-based and Controversial-activity screening.

Candriam is a signatory of the following high-level collaborative initiatives:

Name of collaborative initiatives	Date joined	Date of Renewal
EITI – Extractive Industries Transparency Initiative	2004	-
CDP – Carbon Disclosure Project	2004	2015
UNGC – United Nations Global Compact	2007	2014
ISSR EM – Investor Statement on Sustainability Reporting in Emerging Markets	2008	-
ICOS – Investor Collaboration on Oil Sands	2009	-
CCCC – The Copenhagen Communique on Climate Change	2009	-
ISGACC – 2009 Investors Statement on a Global Agreement on Climate Change	2009	-
CDP LI – Carbon Disclosure Project Leadership Index	2010	-
CDP WD – CDP Water Disclosure	2010	-
ISSWC – Investor Statement regarding suicides and working conditions at electronics manufacturing facilities	2010	-
SSE – Sustainable Stock Exchanges	2010	-
AtM Index – Investor Statement on Access to Medicine	2010	-
ISCC – Investor Statement on Climate Change (Cancun)	2010	-
LSSC – Labour Standards in the Supply Chain	2011	-
GISCC – 2011 Global Investor statement on Climate Change	2011	-
HFIG – Hydraulic Fracturing Investor Guide	2012	-
IEERSO/ST – Investor engagement on environmental risks of shale oil/tight oil	2012	-
ISOS – Investor Statement Oil Sands	2012	-
PRI Rio Initiative	2012	-
ATNI – Access to Nutrition Index Investor Statement	2012	-
Anti-corruption – Invitation to join collaborative engagement on anti-corruption	2013	-
Bangladesh Statement – Investor sign-on letter to companies on Bangladesh	2013	-
Agricultural Supply Chain – Collaborative engagement on labour standards in the agricultural supply chain	2013	-
Investor sign-on letter to companies on Bangladesh – Second Statement	2014	-
Call for Action – Global Banks & Climate Change	2014	-
2014 Global Investor Statement on Climate Change	2014	-
Invitation to support investor statement about EU conflict mineral due diligence regulation	2014	-
UNGC Call to Action on anti-corruption	2014	-
2 Years On: Bangladesh Investor Statement	2015	-
Final EU Parliament Vote on Conflict Minerals Due Diligence and reporting Requirements	2015	-
Invitation to sign letter to RSPO on sustainable palm oil practices	2015	-
Signature of the follow-up letter addressed to the RSPO board	2015	-
Shareholder Letter to Stock Exchanges	2015	-
Montreal Carbon Pledge	2015	-
G20 Energy Efficiency Investor Statement	2015	-
Paris Pledge for Action	2015	-

In 2015, Candriam **renewed one initiative**: the Carbon Disclosure Project (CDP). For further information on this renewed engagement, please refer to the CDP website².

The eight most recent collaborative initiatives, signed in the course of 2015, are described more in detail below³.

3.1 Two Years On: Bangladesh Investor Statement

24 April 2015 marked the second anniversary of the Rana Plaza collapse that killed over 1,100 garment workers.

Following this tragedy, which occurred back in 2013, Candriam joined a group of signatories that co-signed a letter to companies urging them to join the Accord for Fire and Building Safety in Bangladesh. The Accord addresses safety issues in Bangladesh apparel factories. One year later, on 24 April 2014, ICCR (Interfaith Center on Corporate Responsibility), Boston Common, Calvert, Domini and Trillium issued a joint statement acknowledging the progress that had been made since the disaster and outlining commitments to continued improvement. Consequently, Candriam renewed its engagement that year by signing this new investor statement, urging apparel brands and retailers to use their full influence to respect and protect the human rights of workers throughout their global supply chains and, by signing the investor statement, to help those whose rights have been violated.

Two years on, investors have been encouraging companies to join the Accord for Fire and Building Safety, and the Alliance for Worker Safety. Progress has been made on inspections of factories for fire, electrical and building structure safety; however, questions and concerns remain about remediation efforts and the establishment of factory worker/management occupational safety and health committees. ICCR has been calling on PRI signatories to sign an investor letter on remediation financing and the establishment of worker/management occupational safety and health committees.

3.2 EU Parliament Vote on Conflict Minerals Due Diligence and Reporting Requirements

Following Candriam's signature of an investor statement about the EU Conflict Minerals Due Diligence regulation in September 2014, Candriam joined a group of investors that wrote a letter to the European Union (EU) Parliament concerning the EU's proposed regulations on conflict minerals due diligence and reporting.

The letter encourages EU policymakers to ensure that Europe's equivalent to Dodd-Frank Section 1502 builds on the momentum that already exists among companies that are conducting conflict minerals due diligence and reporting on these efforts. The current EU proposal, as most recently proposed by the Parliament's International Trade Committee (INTA), is problematically weak in some key areas that will significantly limit the impact of the legislation, if passed in its current form.

² <https://www.cdp.net/en-US/Pages/HomePage.aspx>

³ Please be aware that the following descriptions are extracts from the engagement initiatives described in the PRI platform.

3.3 Sustainable palm oil

Letter on sustainable palm oil practices to Roundtable on Sustainable Palm Oil (RSPO)

In June 2015, PRI signatories were invited to join the New York State Common Retirement Fund and Green Century Capital Management in signing a letter to the Roundtable on Sustainable Palm Oil (RSPO) that aims to cater for investors' and companies' interests, in seeing the RSPO strengthen its certification standards and practices to align with the best practices for producing palm oil sustainably.

Although the RSPO is the palm oil industry's primary certification body, its standards are seen as containing key gaps that fail to address some of the most urgent sustainability issues facing the industry.

This letter was prompted by the recognition that, while many companies have adopted sourcing standards that go beyond those currently set by the RSPO, ultimately the industry supports and would like to see the RSPO become a more effective tool for ensuring palm oil is produced sustainably. The letter has undergone a thorough review from multiple stakeholder groups, including RSPO member companies, investors, and key environmental and human rights organisations, and reflects the sentiments that many companies have already expressed.

Follow-up letter addressed to the RSPO board

In September 2015, the RSPO announced that RSPO Next, the proposed voluntary standards for certifying member sourcing commitments that go beyond current RSPO standards, was open for consultation. Candriam believes it was important to weigh in on these standards, as it is essential for the RSPO to strengthen its mechanism for verifying sustainable palm oil production practices.

In October 2015, together with the New York State Common Retirement Fund, Candriam signed a cover letter directly to the RSPO Board of Governors, as a follow-up to the initial letter our organization supported back in June 2015.

3.4 Company-investor letter to stock exchanges

In 2010, Candriam agreed to support a call to the listing authorities of the global stock markets to consider whether their listing rules should be updated to see all stock market listing authorities make it a listing requirement that companies put a forward-looking sustainability report and strategy to the vote at their Annual General Meeting.

With this new initiative, asset managers, owners and companies alike are invited to help enhance transparency across all markets by signing a letter calling on stock exchanges to put in place voluntary guidance for issuers on reporting ESG information by the end of 2016.

This letter campaign, led by Allianz Global Investors, is in line with the 8 September release of the SSE Model Reporting Guidance – a globally consistent resource that exchanges can customize to create their own guidance for companies on reporting ESG information to investors.

Exchanges have asked to hear directly from investors and issuers to gauge support for their role in enhancing ESG

transparency and investors' integration of these issues in their markets. We believe this letter campaign highlights an important opportunity for creating more sustainable capital markets.

3.5 Ahead of COP21 in Paris

In order to be an active player in the climate change discussions that occurred in late 2015 ahead of the United Nations Climate Change Conference (COP21) in Paris, Candriam signed three collaborative initiatives on the issue. The summit lasted two weeks and took place from 30 November to 11 December 2015. On 12 December 2015, 96 countries committed to a universal pledge to reduce their carbon footprint. This international agreement aims to limit global warming to +2°C and has the even more ambitious target of pursuing efforts to limit the increase to 1.5°C. Furthermore, in order to mark even more its presence on COP21, on 27 November 2015, Candriam released a statement on climate change: "How investors can address climate change issues". As part of its commitment to the climate change issue, Candriam has signed the following initiatives:

Montreal Carbon Pledge

The Montreal Carbon Pledge was launched on 25 September 2014 at the PRI in Person annual conference in Montreal, and is supported by the PRI and the United Nations Environment Programme Finance Initiative (UNEP-FI). By co-signing the Montreal Carbon Pledge, investors commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis, beginning with their equity portfolios, with the aim of understanding and managing climate change-related risks and opportunities. Overseen by the PRI, it aimed to attract commitment from portfolios totalling US\$3 trillion in time for the COP 21.

Following the signature of this initiative, Candriam had disclosed the carbon footprint of its full SRI fund range (Equity, Fixed Income and Asset Allocation) by the end of November 2015.

G20 Energy Efficiency Investor Statement

PRI signatories were invited to support the G20 Energy Efficiency Investor Statement to send a strong message to G20 leaders and those at COP21 on the need for more focus on energy efficiency.

Hermes Investment Management, Aviva Investors and others, together with members of UNEP FI, the PRI and Ceres, are working to support the ongoing efforts of the G20 Energy Efficiency Finance Task Group (EEFTG), whose ambition is to increase the visibility of, and focus on, Energy Efficiency and its financing, ahead of the G20 Leaders Summit and COP21. Energy Efficiency is one of the few topics which can align actors across sectors, as it helps to mobilise the broader climate mitigation agenda, together with renewable energies. In addition to climate change impacts, energy efficiency has multiple benefits – in terms of, for example, health, pollution reduction, corporate productivity and energy security – that are being increasingly recognised.

Paris Pledge for Action

PRI signatories were encouraged to sign the Paris Pledge for Action – a public statement launched at COP21 – affirming the commitments of investors, companies, labour organisations and NGOs to a safe and stable climate. The statement, issued by the French government, showed support for staying under 2 degrees and for a new global climate agreement intent on doing

exactly that. The statement was supported by global investor groups including CDP, the Institutional Investors Group on Climate Change (IIGCC), the Investor Group on Climate Change (IGCC), Ceres Investor Network on Climate Risk (INCR), the PRI and UNEP FI.

4. EXERCISING VOTING RIGHTS

Candriam pays particular attention to the corporate governance policies, structures and practices of the companies in which it invests on behalf of its clients as it is convinced that sound corporate governance practices deliver long-term shareholder value.

4.1. 2015 Proxy Voting Overview

In 2015, Candriam participated in **258 meetings** (compared to 123 in 2014) and voted on 4072 resolutions (Figure 1). The surge in the number of meetings is mainly due to the increase in our proxy voting scope, which is now international. Candriam participated in **145 meetings of European companies** and **113 meetings of international companies** (Figure 2).

FIGURE 1: Number of meetings

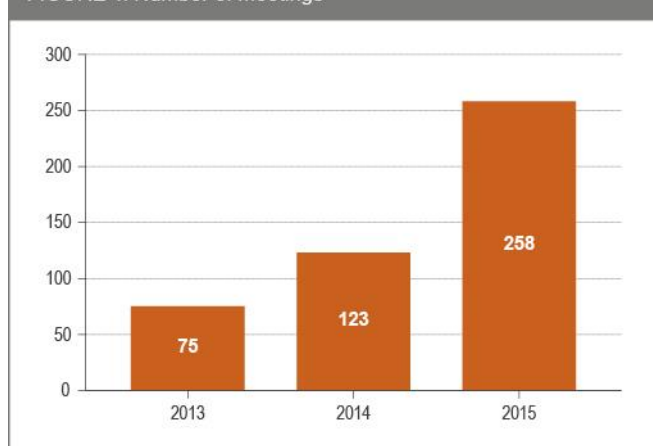
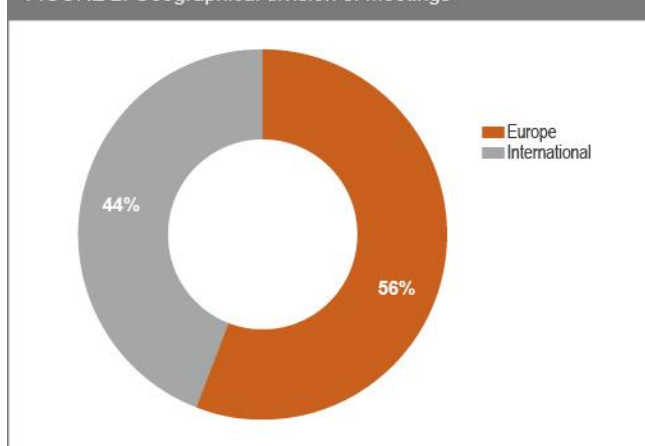


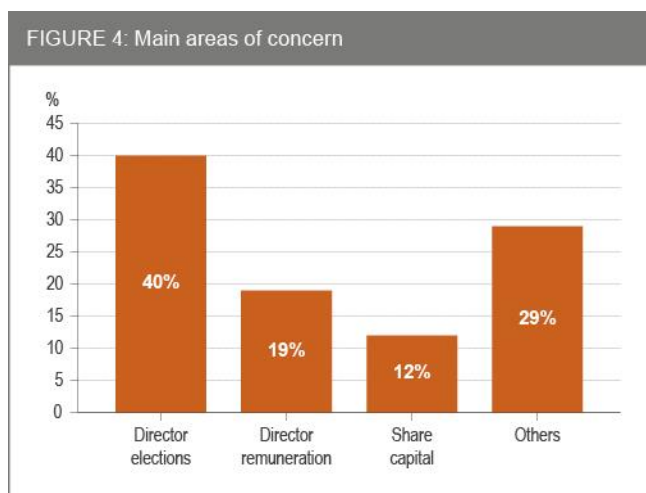
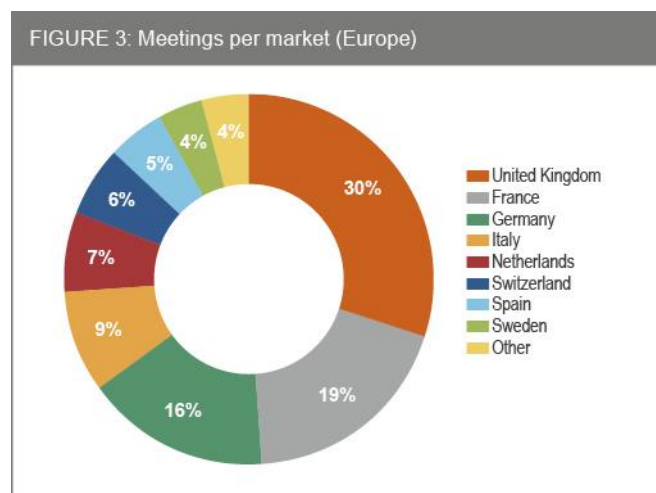
FIGURE 2: Geographical division of meetings



2015 Emerging Markets scope extension

In 2015, Candriam extended its Proxy Voting activities to Emerging Market companies (108 meetings). Members of Candriam's Proxy Voting Committee studied local corporate governance practices and codes and issued specific voting recommendations for these markets. Whereas most companies cited in this annual review are European, the statistics also encompass Emerging Market companies.

In Europe, the markets in which Candriam had the most annual or extraordinary meetings were the United Kingdom (30% of general meetings), France (19%) and Germany (16%), as shown in Figure 3 below.



As shown in Figure 4 above, contentious issues, representing 19% of the resolutions on the agendas (i.e. 762 resolutions), unsurprisingly revolved around three broad themes: **director elections, share capital issues and remuneration issues**.

40% of all Candriam “Against” or “Abstain” votes related to director elections (2014: 17%), 19% to remuneration (2014: 53%) and 12% to share capital issues (2014:18%). Director remuneration is usually the most controversial issue in Europe. The extension of Candriam’s scope might explain the relative importance of director elections as a “new” area of concern.

In exercising its voting rights, Candriam votes for resolutions which take into consideration the principles of sustainable development, e.g. good relations with employees, a concern for the environment, an economy based on ethical values, and a healthy external social policy. Before taking voting decisions, Candriam ensures it has all the necessary information on the matter, using in-house SRI knowledge and external sources of information from ESG providers, and takes into account the point of view of the proxy voting agency with which it collaborates. When Candriam votes on ESG resolutions, which are still relatively rare in Europe, it takes into account the company’s management (e.g. Does it have efficient policies and management systems in place? Best practice and peer practice policies?) and any explanations that answer investors’ queries.

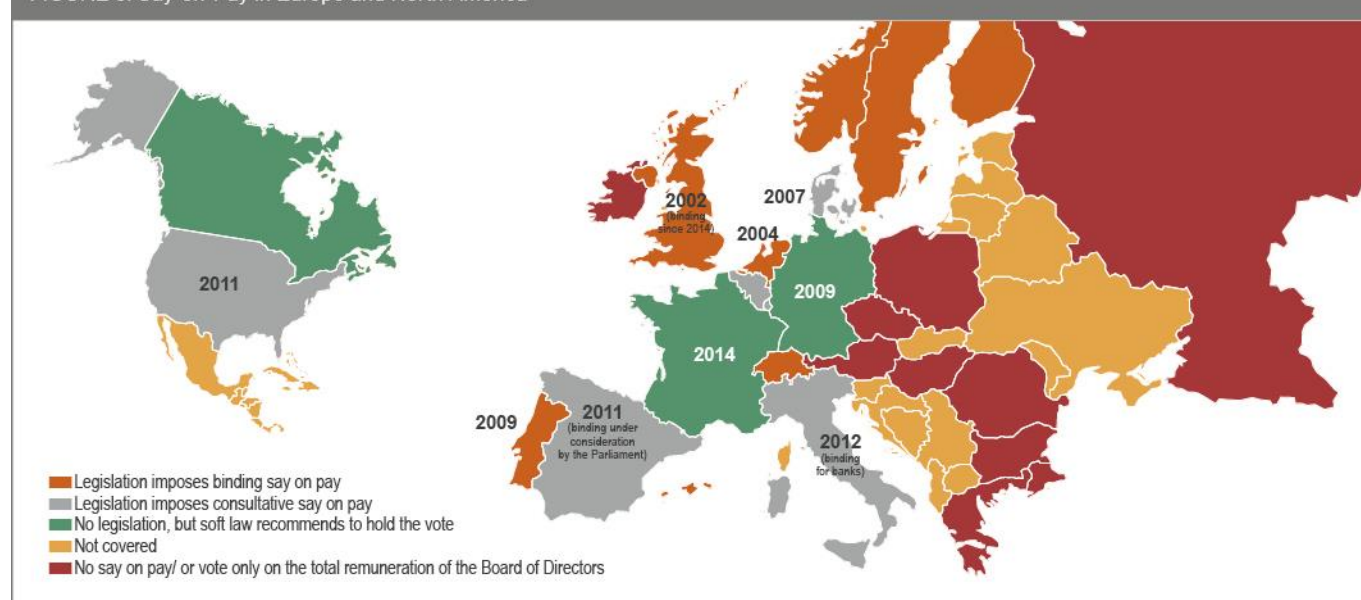
4.2. Latest Corporate Governance Developments

2015 saw a number of interesting corporate governance developments such as the effects of the adoption of the Say-On-Pay principle and those of the Florange Act in France.

Say-on-Pay

Candriam strongly supports the Say-on-Pay principle as we consider that shareholders should have a say in directors' remuneration. Remuneration should be structured to encourage company performance and the alignment of shareholders' and directors' interests. The figure below shows the prevalence of the Say-On-Pay principle in Europe and North America.

FIGURE 8: Say-on-Pay in Europe and North America



The binding Say-On-Pay is only imposed in a handful of markets (UK, Scandinavia, Portugal, the Netherlands and, finally, Switzerland). In Switzerland and following the Minder initiative, the 2015 season was the first season with binding Say-on-Pay votes. The Minder Initiative gave shareholders the chance to vote on executive pay and prohibited golden handshakes. The vast majority of binding pay resolutions were passed. Sika AG (Chemicals) was the only company that saw its compensation proposal defeated (this has to be seen in light of the dispute between the board and the controlling family).

In France, an advisory Say-on-Pay was introduced in 2014 and the level of dissent increased during the “second Say-on-Pay season”. This shows that investors now clearly look into remuneration matters and that they see this as a very important issue. This new scrutiny is also likely to make French companies better disclose and explain their policies.

Florange Act in France

In France, in the aftermath of the Florange Act, ordinary shares acquire double voting rights if held for at least two years, unless a resolution has been passed to keep the single voting rights. In other words, double voting rights become the norm (if held for at least two years); single voting rights the exception.

This piece of legislation, aimed at encouraging long-term shareholding, is in contradiction with the one-share, one-vote principle that ensures that ownership and control are aligned. Candriam supports resolutions that maintain the one-share, one-vote principle, a cornerstone of its policy.

The Florange Act was not a revolution, as approximately two-thirds of SBF 120 companies already allowed double voting rights in their memorandum of association .

At the end of the 2015 AGM season, 28 CAC 40 companies had introduced or maintained double voting rights. Seven CAC 40 companies adopted the double voting rights after their AGM (the French State owns more than 50% of the shares in three of these companies: EDF, Areva and ADP).

At Alstom, Engie, Orange, Renault, Veolia and Vivendi, a resolution seeking to maintain single voting rights was defeated.

Finally, shareholders in eight CAC 40 companies (including Air Liquide, BNP Paribas and Crédit Agricole) approved resolutions to maintain single voting rights.

4.3. Proxy Voting Engagement

In 2012, Candriam initiated a dialogue with companies and decided to send a letter to company chairmen when the rationale behind a voting recommendation required further explanation. It is in the same constructive spirit that in 2015 Candriam sent three letters to Board chairmen explaining the reasons behind a vote or expressed our concern over a given issue.

The first letter was sent to the chairman of LVMH, the French luxury goods company, to explain our concerns and our vote Against a related-party transaction and the lack of information disclosed by the company. Candriam also contacted the chairmen of Volkswagen and Beiersdorf to reiterate our concerns over board independence.

5. PROMOTING SUSTAINABLE DEVELOPMENT

As an SRI pioneer, Candriam advocates sustainable development on the financial markets by sharing its SRI expertise with clients, the media and the investment community at large.

Firstly, Candriam is actively involved in a large number of **associations that promote the integration of sustainable development within the investment industry**. The table below gives an overview of the major active memberships of Candriam:

	Name of Association		Since
SRI WORKING GROUPS WITHIN...	BEAMA	Belgian Asset Managers Association	2002
	AFG	Association Française de la Gestion Financière	2003
	EFAMA	European Fund and Asset Management Association	2010
SEVERAL SOCIAL INVESTMENT FORUMS, SUCH AS	Eurosif	European Sustainable Investment Forum	2003
	Belsif	Belgian Sustainable and Socially Responsible Investment (board member)	2003
	VBDO	Dutch Sustainable Investment Forum	2007
	RIAA	Responsible Investment Association Australasia	2007
	FNG	Forum Nachhaltige Geldanlagen (Germany, Switzerland & Austria)	2010
	SSF	Swiss Sustainable Finance	2014
	FIR	French Sustainable Investment Forum	2014
SUSTAINABLE DEVELOPMENT INFORMATION CENTERS	ORSE	Observatoire sur la Responsabilité Sociétale des Entreprises: Club Finance	2004
	ABIS	Academy of Business in Society	2005

Candriam also supports initiatives that encourage national or international entities to develop and improve frameworks to promote sustainable development.

Furthermore, Candriam fosters both internal and external SRI research initiatives. Candriam's SRI analysts and traditional analysts jointly produce in-depth, in-house research papers that are available on the Candriam SRI website.

External SRI research is also promoted by means of sponsorships such as the "Chaire de recherche Finance Durable et Investissement Responsable" organized by the AFG (Association Française de la Gestion financière). Candriam shares its SRI expertise as a regular speaker at key SRI conferences in Europe and abroad and as a frequent interviewee in the press. In 2015, Candriam participated:

- On May 2015, at the **Giornata Nazionale della Previdenza event in Naples** (Italy):
The SRI analyst in charge of our Proxy Voting and Engagement Activities spoke at the round table "Worldwide Investing. Sustainability and Responsible Investment: from a niche to mainstream? Excellence in International experience".
The SRI topic discussed was "Engagement Activities: How, When and Why" ("Attività di Engagement: Come, Quando e Perché")

- On June 2015, at the **Geneva Forum for Sustainable Investing** (Switzerland):
Isabelle Cabie, our Global Head of Sustainable Investments, and Tanguy Cornet, our Deputy Head of Quant Equity Management, were speakers at the Geneva Forum for Sustainable Investing. Isabelle Cabie gave a first speech during a plenary session, highlighting the 20 years experience of the value added in SRI using Candriam's in-house SRI approach in front of an audience of 100. She then, together with Tanguy, presented, at a dedicated workshop, our successful combined SRI and Quant management expertise. The Swiss team took advantage of the managers' presence at the conference to organise one-to-one meetings with some institutional clients attending the Forum.
- On July 2015, at the **Forum per la Finanza Sostenibile**:
The SRI analyst in charge of Proxy Voting and Engagement activities participated in a working group with other institutional investors and pension funds on the topic of "Engagement". Our SRI analyst helped draft the Italian Engagement guidelines.
- On October 2015, at the **AG2R SRI Seminar** (France):
For over 14 years, AG2R, France's leading specialist in health insurance, and committed to offering responsible portfolios to its clients, doubled its direct SRI investments in 2014. On 5 October 2015, an SRI seminar was held by AG2R in France welcoming more than 170 heads of French institutional investors and main SRI representatives on the topic: "L'ISR(SER)R(E) T-IL TROP FORT?" Isabelle Cabie, our Global Head of SRI, was one of the contributing specialists at this event. It was an opportunity to promote our SRI expertise with a special focus on how Candriam manages ESG controversies in company assessments.
- On October 2015, an **SRI roadshow in collaboration with Belfius** (Belgium):
Last October, Candriam was invited by Belfius to promote SRI to its public and social banking clients by means of a roadshow in Belgium. It was an opportunity to highlight our belief in SRI funds and explain in detail our Best-in-class approach and our broad SRI product range.
- On October 2015, a **roundtable and one-to-ones in Zurich** (Switzerland):
Ben Peeters, Senior Investment Specialist, and Stefan Paulus, Senior Relationship Manager for Candriam Switzerland, were in Zurich to share their expertise on SRI. Ben Peeters met clients during a roundtable and one-to-one meetings, at which he provided detailed insights into our SRI research approach.
- On November 2015, at the **Frankfurt School of Finance** (Germany):
Achim Gilbert was invited by the Frankfurt School of Finance to debate "Developments in Sustainability Products" at the annual "Nachhaltige Geldanlagen" (Sustainable Investment) Conference.
In front of more than 100 institutional investors from all over Germany, Achim Gilbert discussed with peers and the audience the trends in Sustainable investment products and the changes in customer requirements over the past few years. Clients are now asking asset managers to develop their product range towards engagement and impact-oriented investments, furthermore, and, as they also want to track their investment, they require sustainability reporting.
- On November 2015, at the **Forum per la Finanza Sostenibile** in Milan (Italy):
Candriam participated in the "Forum per la Finanza Sostenibile" in Milan, where it debated with retail and institutional investors, financial operators and intermediaries (consultants and sales network) of financial markets to increase the amount of assets invested using social responsibility criteria and to improve the effectiveness of this practice. On November 12th, Candriam held a round-table on the topic: "Engagement on SRI themes. Listed companies and

dialogue with investors". This round-table was moderated by Professor Marco Frey and three speakers: Ben Peeters, Senior Investment Specialist at Candriam, Fluvio Rossi, CSR Manager at Terna, and Ugo Biggeri, President of Etica SGR.

- On November 2015, at the **"Italian Private Banking Association" National Forum:**

Candriam was one of the four main partners of the 11th national forum of the Italian Private Banking Association. This event brings together 400 Senior Management Italian Private Banks, Private Bankers and END Investors, with a further 1 800 attendees connected by streaming. As main partner, Candriam had the opportunity to share a presentation with the audience on the topic: Private Banking – best international practices. The 30-minute presentation, entitled "A new private banking between wealth and responsibility", was given by Renato Guerriero, Global Head of European Client Relations, and Matthieu David, Head of Italian Branch. A video interview between Renato Guerriero and Sofia Merlo, BNPP Wealth Management CEO, was broadcast on this occasion.