



# CANDRIAM ACADEMY

The Candriam Academy is the world's first free-to-access accredited training platform for sustainable and responsible investing.

# Training The Next Generation Of Responsible Investors

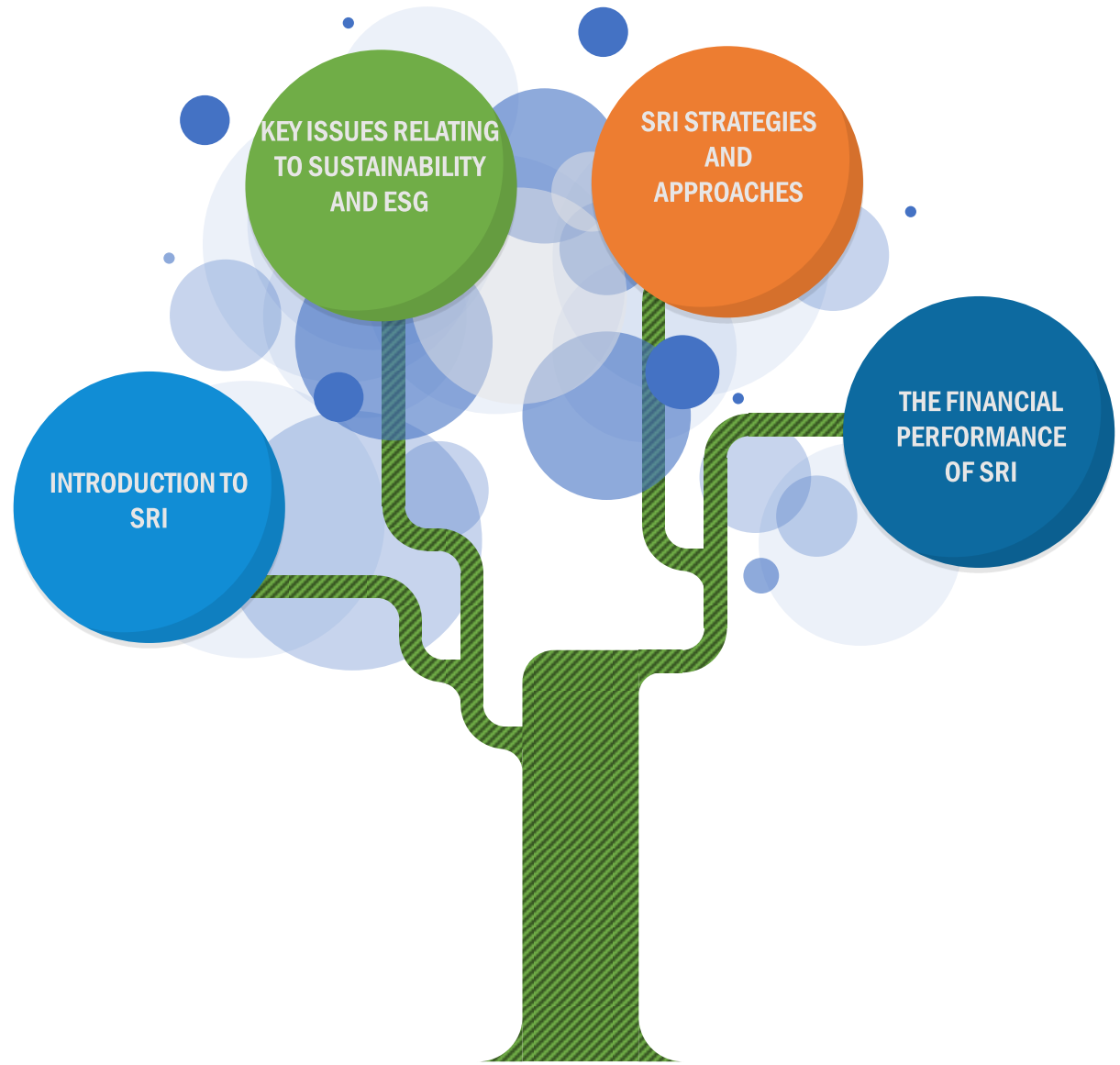
**The Candriam Academy brings together subject matter experts from around the world.**

To guarantee quality the course has been accredited to the highest educational standard.

The training is delivered through an immersive digital experience with videos graphics and tests.

What's more, when you complete the training you'll receive a certificate which you can store within your account.

**There are four modules within the SRI Academy.**



# What Does The Candriam Academy Cover?



## INTRODUCTION TO SRI

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This first module provides a general introduction to the topic of sustainable and responsible investing. We begin by introducing some of the key terms and concepts that will be developed further throughout the course.



## KEY ISSUES RELATING TO SUSTAINABILITY AND ESG

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This module outlines the sustainability issues that relate to the environmental, social and governance factors associated with SRI.



## SRI STRATEGIES AND APPROACHES

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We examine the different types of strategies and approaches for sustainable and responsible investing. We will cover exclusion strategies such as norms based screening, ESG integration and best in class.



## THE FINANCIAL PERFORMANCE OF SRI

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This module will help you understand the materiality of sustainability for investments across asset classes. We will look at the drivers of performance of SRI strategies, including some interesting data and case studies that dispel the myths surrounding SRI.

## INTRODUCTION TO SRI

This first module provides a general introduction to the topic of sustainable and responsible investing.

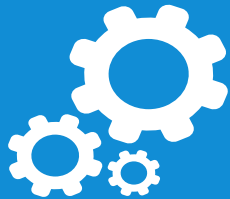
It begins by introducing some of the key terms and concepts that will be developed further throughout the course.

Then looks at ethics and what it implies for investing, and what do we mean when we talk about ESG

# Key Terms

## ESG (Environmental, Social, Governance)

Investment analysis that incorporates environmental, social, and corporate governance factors into the investment process.



## ETHICAL INVESTING

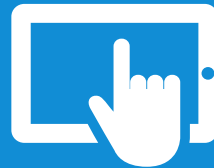


## SRI



## FIDUCIARY RESPONSIBILITY

In the institutional investment context, trustees of pension funds owe fiduciary duties to beneficiaries to exercise reasonable care, skill and caution in pursuing an overall investment strategy suitable to the purpose of the trust.



## GREEN INVESTING

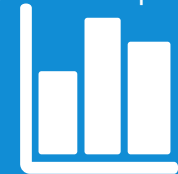


## GREEN WASHING



## CSR (Corporate Social Responsibility)

An approach to business which takes into account economic, social, environmental, and ethical impacts for a variety of reasons, including mitigating risk, decreasing costs, and improving brand image and competitiveness.



## CARBON FOOTPRINT

The carbon footprint reflects the quantity of greenhouse gas emissions caused by a company or an organisation.



## MATERIALITY

In the sustainability context, information is material if it provides stakeholders with knowledge about the company's environmental, social, and financial performance that enables them to make informed judgments and decisions about the company..



# SRI And ESG Explained

## ENVIRONMENTAL

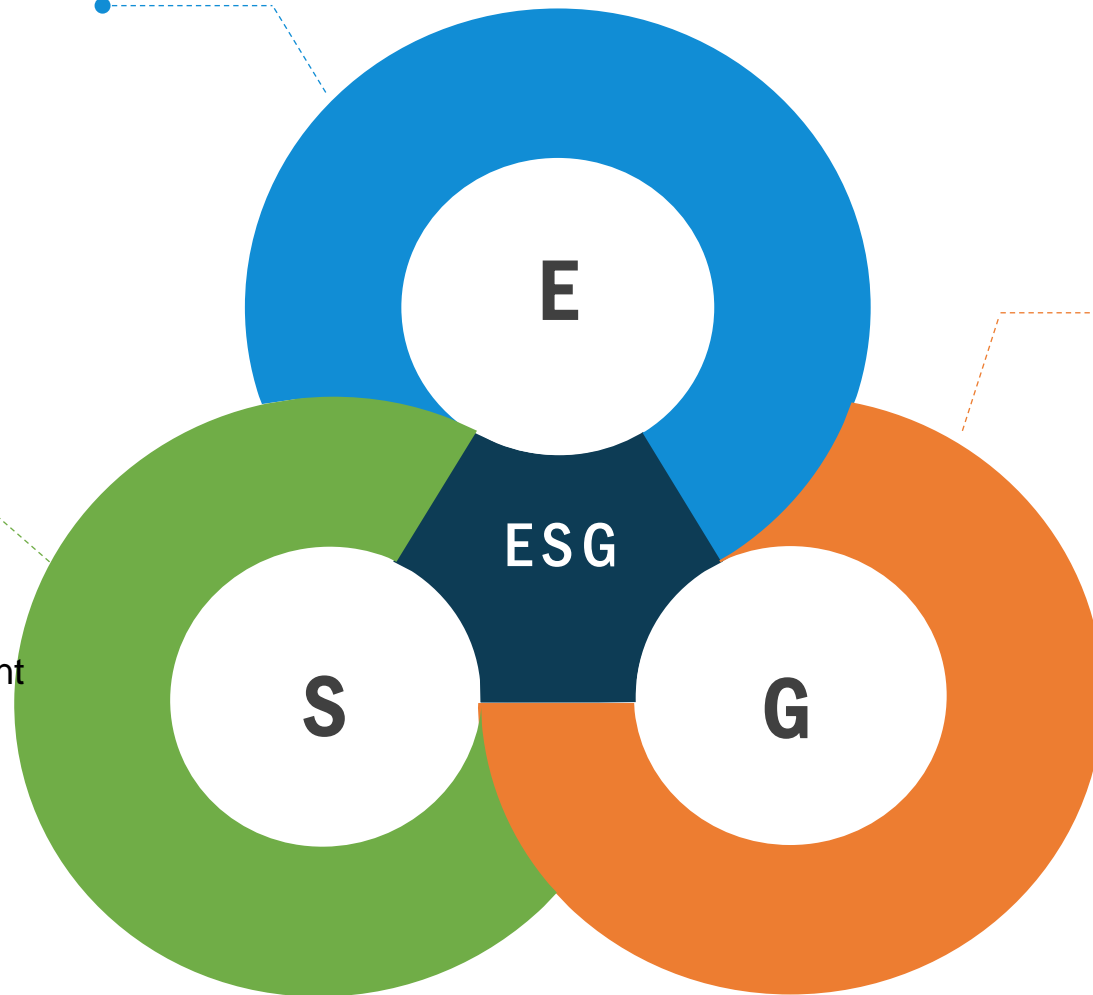
- Resource preservation
- Energy consumption
- Pollution
- Climate change
- Waste production
- Animal welfare

## SOCIAL

- Human rights
- Child and forced labor
- Community engagement
- Health and safety
- Stakeholder relations
- Employee relations

## GOVERNANCE

- Quality of management
- Board independence
- Conflicts of interest
- Executive compensation
- Transparency & disclosure
- Shareholder rights

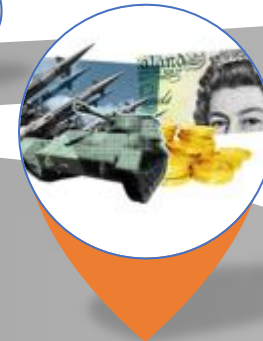


# A Brief History Of SRI

**1971**

**Ethical funds developed: Pax World Fund**

One of the earliest ethical funds is developed. The Pax World Fund avoids investments in companies involved in the arms trade industry



**2008**

**Subprime mortgage crisis begins**

The subprime mortgage crisis begins in the US, with significant impacts continuing to 2012 and effects still prominent today



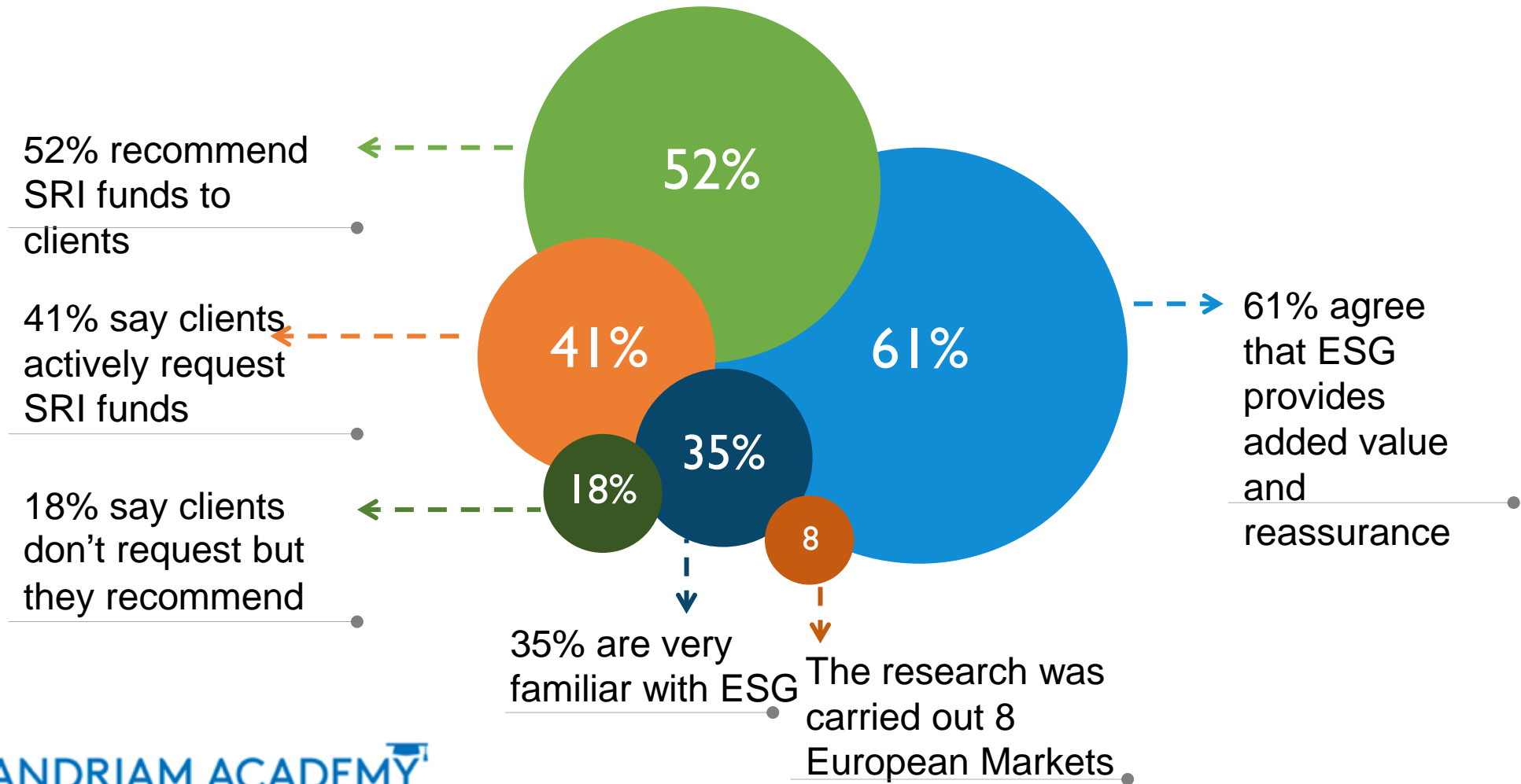
**1999**

**Dow Jones Sustainability Indices**

Dow Jones Sustainability Indices created to track financial success of leading sustainability companies

# How Do Financial Advisors Perceive SRI Funds?

Source: BDifferent & Candriam, April 2016

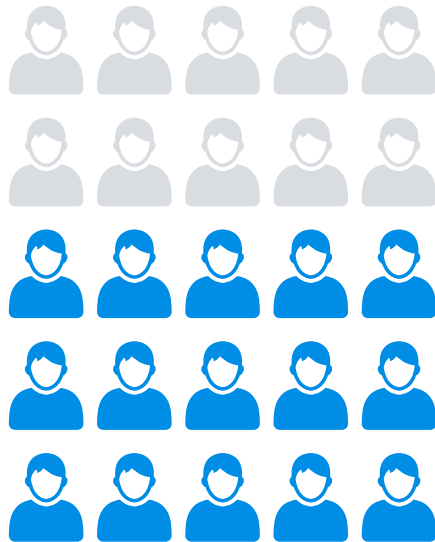




# Member Polls

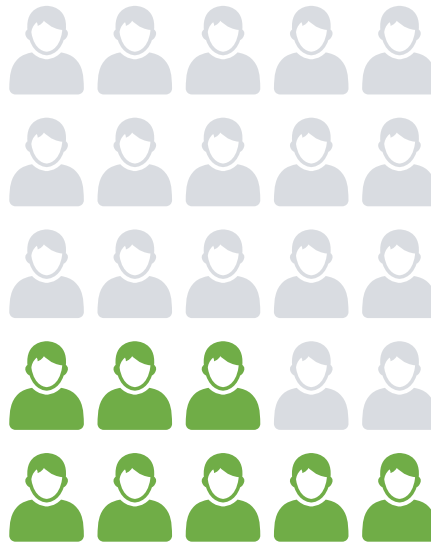
Do you currently invest or advise clients to invest in sustainable and responsible investments?

YES



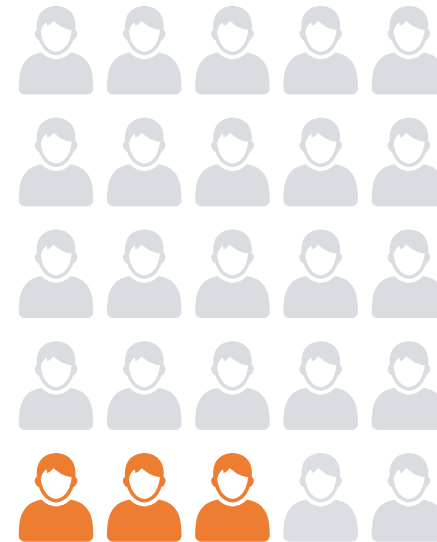
60%

NO



30%

DON'T KNOW



10%

## KEY ISSUES RELATING TO SUSTAINABILITY AND ESG

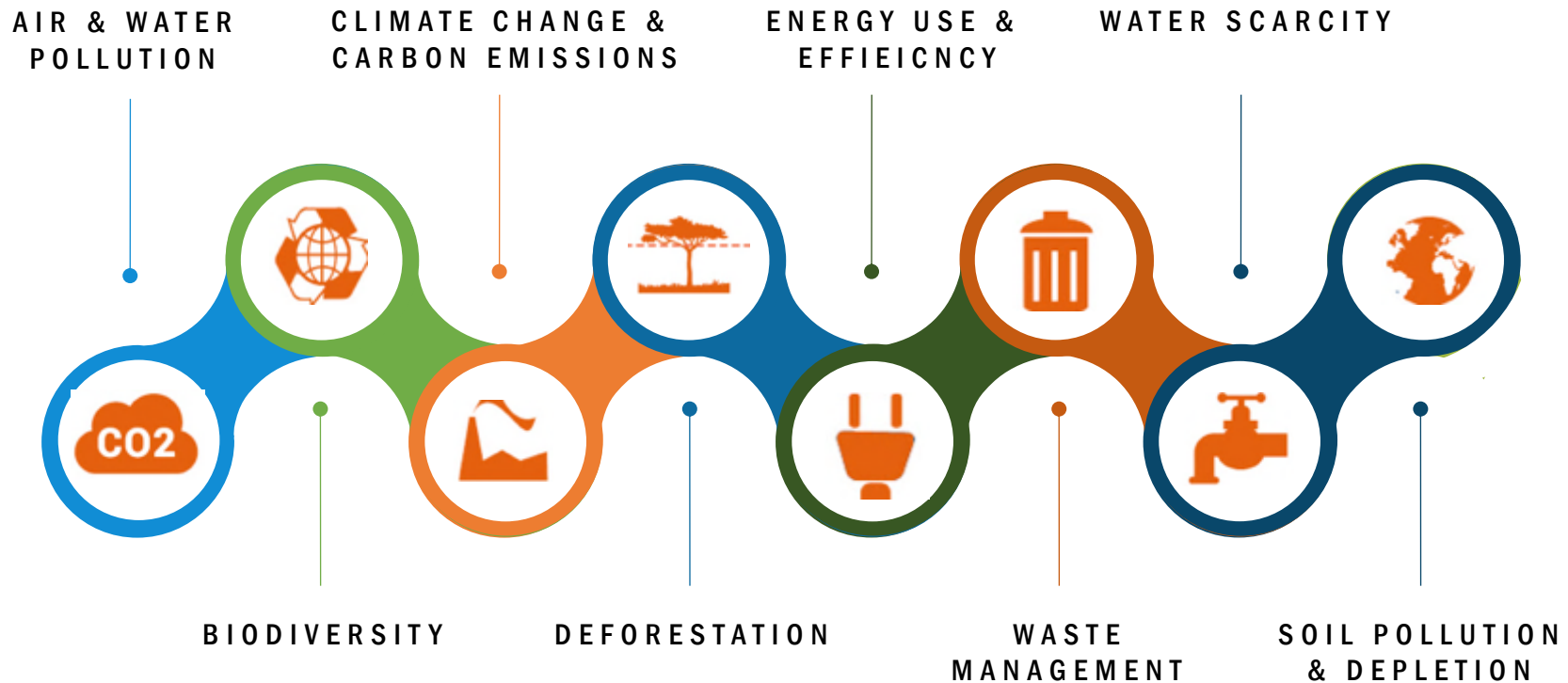
The second module outlines the sustainability issues that relate to the environmental, social and governance factors associated with SRI.

In this module we will also discuss sustainability ratings and labels.

Finally we will cover United Nations principles for responsible investment (UN PRI).

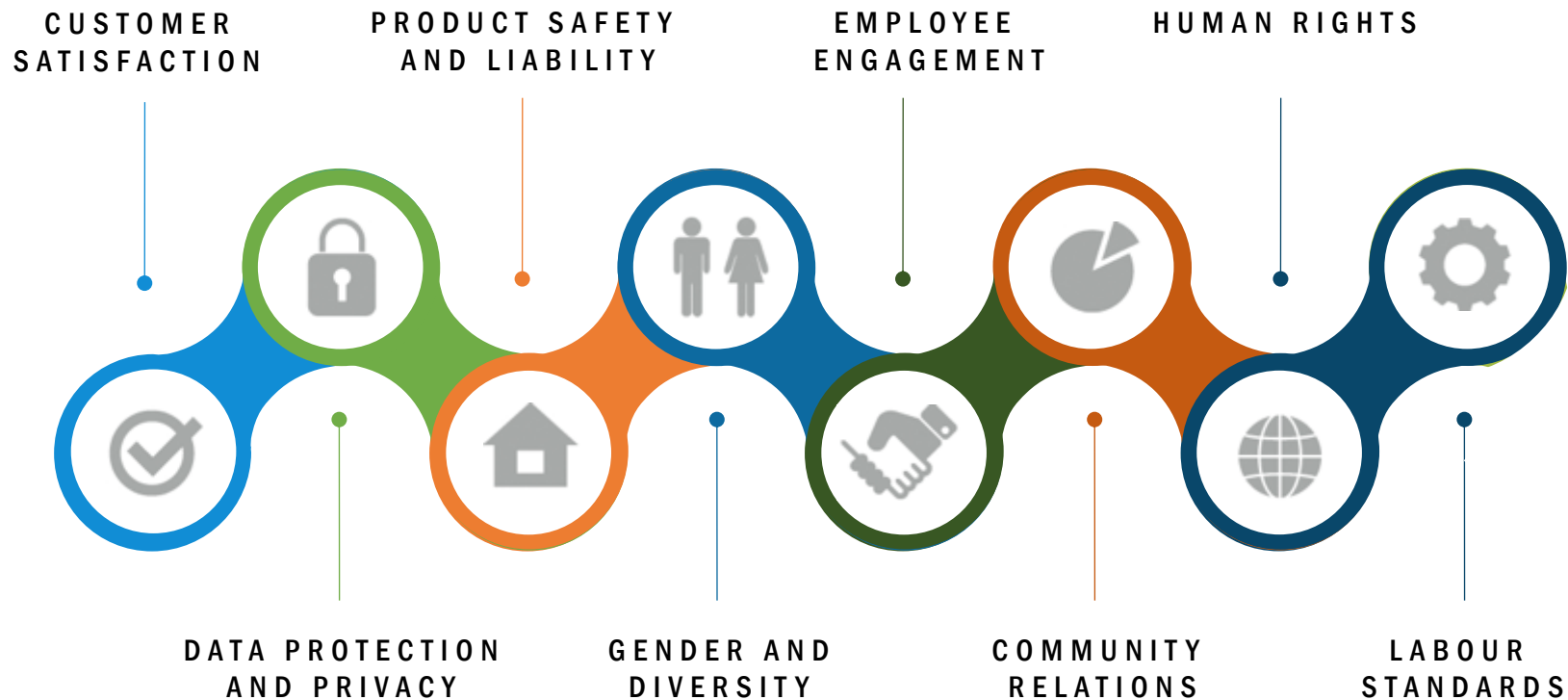


# Environmental Sustainability Issues Relating To ESG



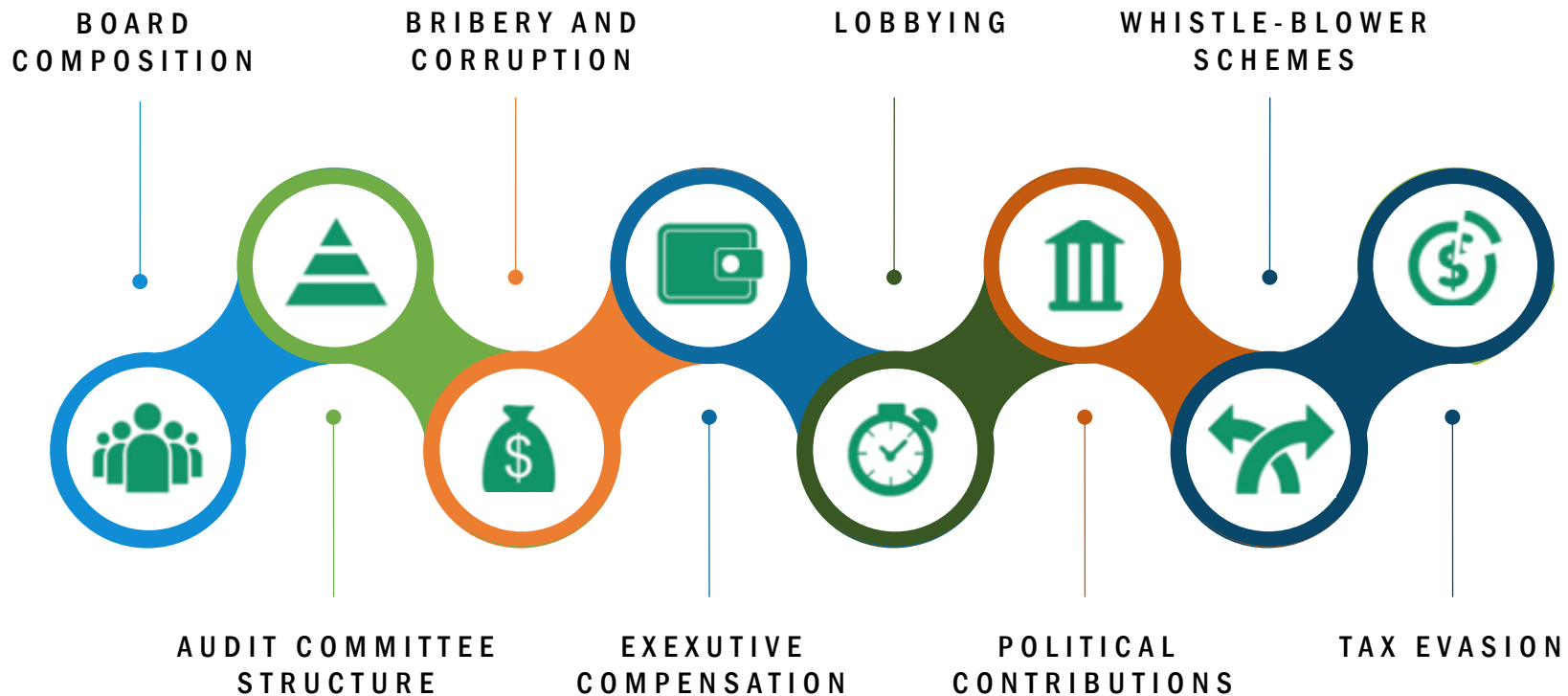
**Environmental criteria look at a company's energy use, waste, pollution, natural resource conservation and animal treatment.**

# Social Sustainability Issues Relating To ESG



**Social criteria look at the company's business relationships.**

# Governance Sustainability Issues Relating To ESG

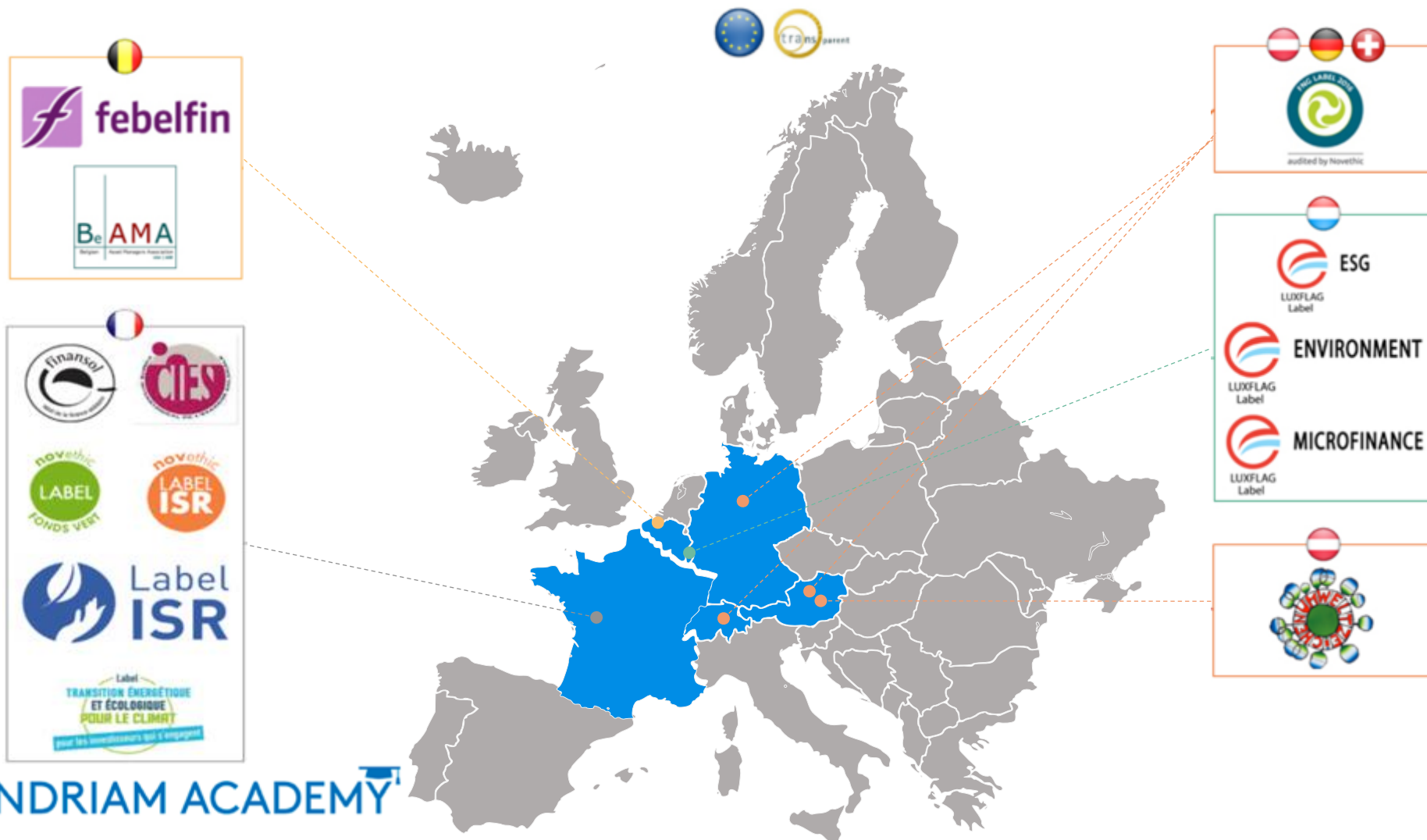


**With regard to governance, investors want to know that a company uses accurate and transparent accounting methods, and they want to see that common stockholders are allowed to vote on important issues.**

# SRI Labels






## EUROPE

### EUROSIF SRI TRANSPARENCY CODE



# Morning Star Sustainability Ratings

## Morningstar Sustainability Rating

| Distribution | Score | Descriptive Rank | Rating icon   |
|--------------|-------|------------------|---|
| Highest 10%  | 5     | High             |    |
| Next 22.5%   | 4     | Above Average    |    |
| Next 35%     | 3     | Average          |    |
| Next 22.5%   | 2     | Below Average    |   |
| Lowest 10%   | 1     | Low              |  |

# Categorisation Of Strategies

| EUROSI F  | GSIA -<br>EQUIVALENT                        | PRI -<br>EQUIVALENT  | EFAMA -<br>EQUIVALENT                    |
|---|---|--|--|
| Exclusion of holdings from investment universe  | Negative/ exclusionary screening            | Negative/ exclusionary screening                                   | Negative/ exclusionary screening         |
| Norms-based screening                           | Norms-based screening                       | Norms-based screening  | Norms based approach (type of screening) |
| Best-in-class investment selection              | Positive/ best-in-class screening           | Positive/ best-in-class screening                                  | Best-in-class policy (type of screening) |
| Sustainability themed investment                | Sustainability themed investing             | Sustainability themed investment                                   | Thematic investment (type of screening)  |
| ESG integration                                 | ESG integration                             | Integration of ESG issues  | -  |
| Engagement and voting on sustainability matters | Corporate engagement and shareholder action | Active ownership and engagement (three types):<br>Active ownership | Sustainability themed investment         |
| Impact investing                                | Impact/ community investing                 | -  | -  |



**Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment across Europe, for the benefit of its members.**

Promote the development of, and collaboration between SIFs across Europe



Provide research and analysis on the development of, and trends within the SRI market across Europe



Raise awareness of and increase demand for SRI throughout the European capital markets



Promote best practice in Sustainable and Responsible Investment (SRI) on behalf of its members



Lobby for European regulation and legislation that supports the development of SRI



Support its members in developing their sustainable and responsible investment business

# UN Principles For Responsible Investment (PRI)



## SRI STRATEGIES AND APPROACHES

In our third module we examine the different types of strategies and approaches for sustainable and responsible investing.

We cover exclusion strategies such as norms based screening, ESG integration and best in class.

Finally we will look at sustainability themed and impact investing.

# SRI Strategies And Approaches

SUSTAINABILITY THEMED

BEST IN CLASS

EXCLUSION

ENGAGEMENT AND VOTING

ESG INTEGRATION

IMPACT INVESTING

NORMS BASED SCREENING



# Sustainability Themed



## SUSTAINABILITY THEMED

**Sustainability themed investments contribute to addressing social and / or environmental challenges such as climate change or natural resource depletion. Thematic funds focus on specific or multiple issues, such as renewable energy, energy efficiency, eco-mobility, sustainable buildings, waste or water management.**



# Engagement And Voting



## ENGAGEMENT AND VOTING

Active share ownership through voting or proxy voting is the primary means by which shareholders can influence issuers' ESG strategies and practices. Engagement may take the form of face to face meetings, running seminars, formal letters, calls, emails, writing reports and discussing management issues with senior company executives.



# ESG Integration

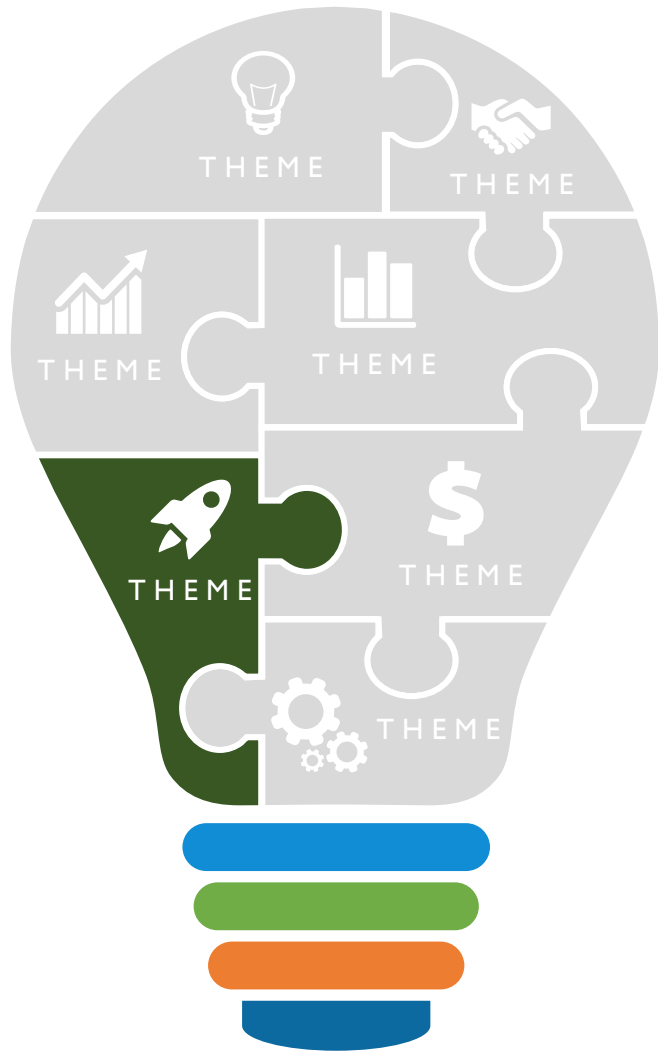


## ESG INTEGRATION

Integration is the explicit inclusion of ESG factors by asset managers into traditional financial analysis.



# Exclusion



## EXCLUSION

**This approach systematically excludes companies, sectors or companies from the permissible investment universe if involved in certain activities based on specific criteria.**





# Best-In-Class



## BEST IN CLASS

**This approach involves the selection or weighting of the best performing or most improved companies or assets as identified by ESG analysis, within a defined investment universe. This approach includes Best-In-Class Best-in-Universe and Best-Effort.**





## IMPACT INVESTING

Investments are often project specific, and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return.

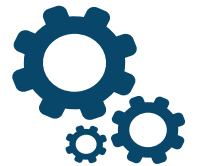


# Norms Based Screening



## NORMS BASED SCREENING

Norms-based screening allows investors to assess the degree to which each company in their portfolios respects issues that impact environmental, social and governance criteria by adhering to global norms on environmental protection, human rights, labour standards and anti-corruption.



## THE FINANCIAL PERFORMANCE OF SRI

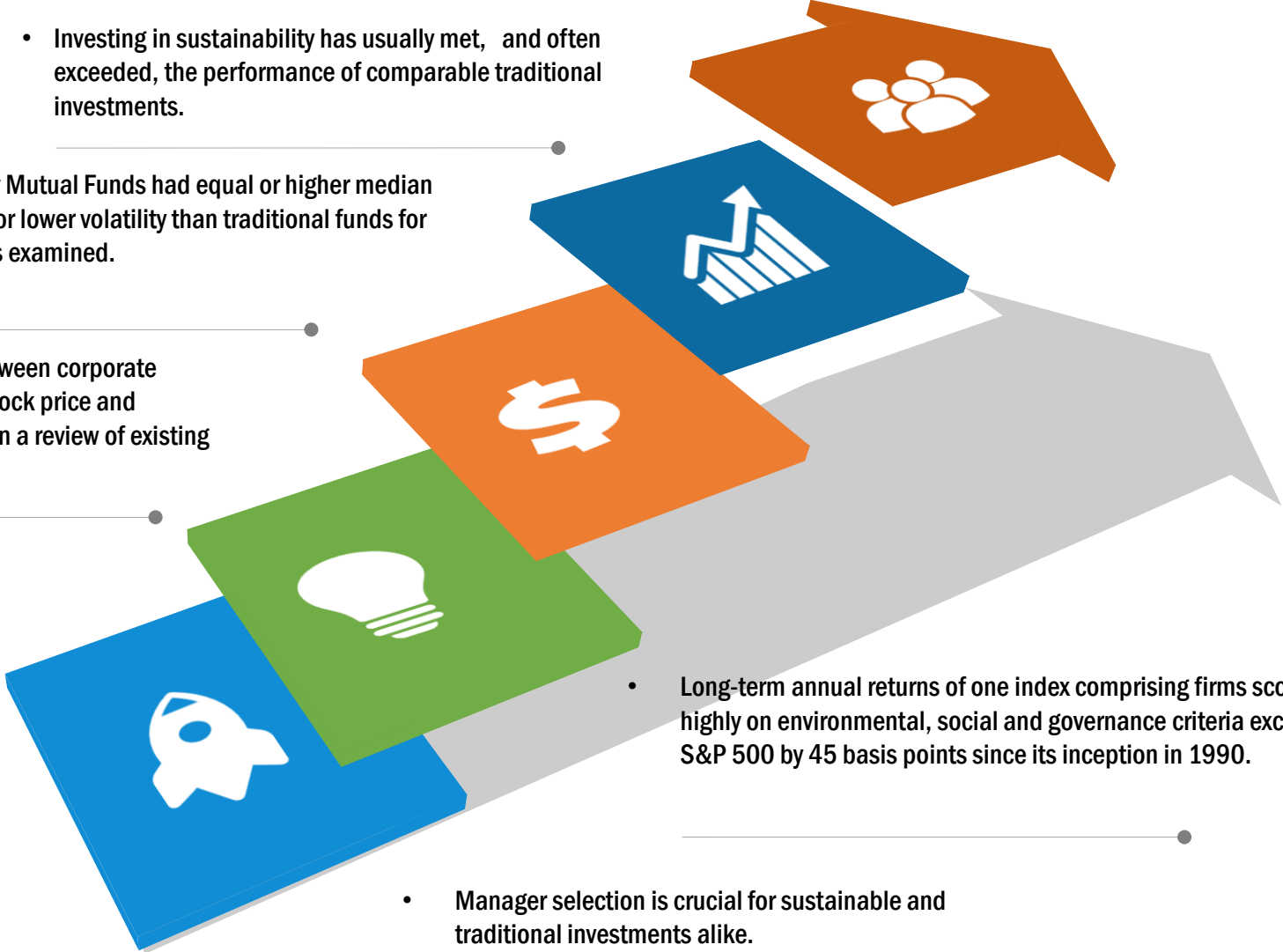
This module is about the financial performance of SRI strategies.

It will help you understand the materiality of sustainability for investments across asset classes.

We look at the drivers of performance of SRI strategies, including some interesting data and case studies that dispel the myths surrounding SRI.



# Sustainable Reality

- Investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments.
  - Sustainable equity Mutual Funds had equal or higher median returns and equal or lower volatility than traditional funds for 64% of the periods examined.
  - There is a positive relationship between corporate investment in sustainability and stock price and operational performance, based on a review of existing studies.
  - Long-term annual returns of one index comprising firms scoring highly on environmental, social and governance criteria exceeded the S&P 500 by 45 basis points since its inception in 1990.
  - Manager selection is crucial for sustainable and traditional investments alike.
- 

# Financial Performance of SRI



Does sustainable and responsible investment (SRI) sacrifice investment returns to principles?

The answer is no, according to studies published in peer-reviewed journals and elsewhere.

The MSCI KLD 400 Social Index (DSI), previously known as the Domini 400 Social Index, saw an annualized rate of return of 7.64% over the last 10 years through May 2017, compared to 4.87% for the Standard & Poor's 500 Index over the same period.

Over the last 5 years, the KLD saw returns of 13.05%, while the S&P 500 saw returns of 11.27%.

The majority of the more than 50 studies on SRI performance find that the a SRI approach fares just as well as non-SRI approaches. Reinforcing this conclusion are the track records of stock market indexes made up of companies screened by environmental, social and governance (ESG) criteria.

Sceptics often proffer that sustainable and responsible investment strategies are more likely to under-perform because they place additional constraints on portfolio managers. They rule out companies that sell addictive harmful products such as tobacco, alcohol, gambling funds, instead directing funds to those that:



Preserve the environment



Do not violate human rights



Are sensitive to indigenous people; and/or



Practice good employee relations

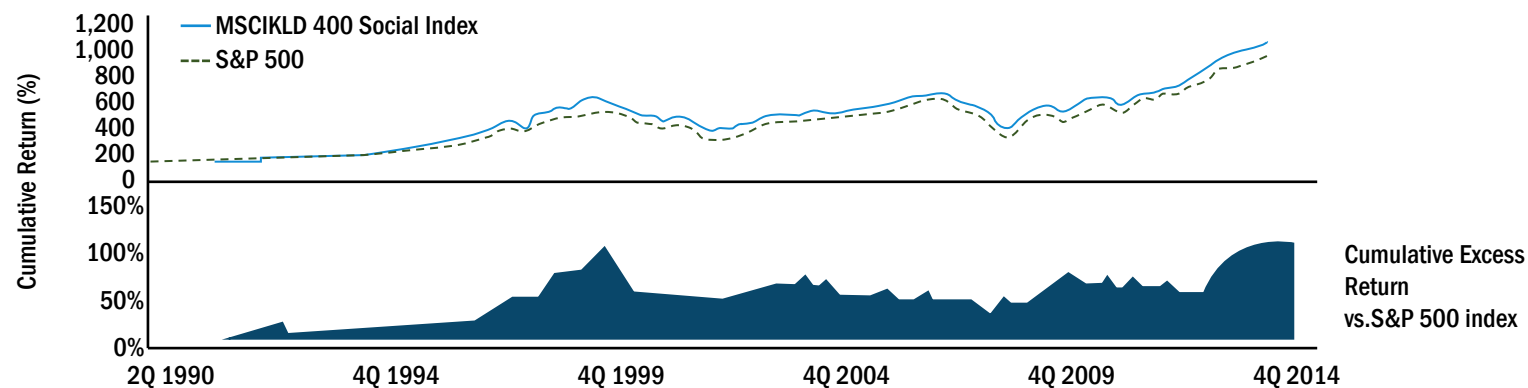


Adhere to good governance



Enjoy good relations with their communities

Figure 1- Index Performance- MSCI KLD 400 vs. S&P 500 (July 1990-Dec. 2014)- USD<sup>17</sup>



|                           | Annualized Return (%) | Standard Deviation (%) | Sharpe Ratio | Beta vs. S&P 500 Index | Annualized Excess Return vs. S&P 500 (%) | Cumulative Excess Return vs. S&P 500 (%) | Alpha vs. S&P 500 Index (%) | Tracking Error vs. S&P 500 Index (%) |
|---------------------------|-----------------------|------------------------|--------------|------------------------|--|--|-----------------------------|--------------------------------------|
| MSCI KLD 400 Social Index | 10.14                 | 16.80                  | 0.42         | 1.03                   | 0.45                                     | 102.36                                   | 0.19                        | 2.68                                 |
| S&P 500 Index             | 9.69                  | 16.09                  | 0.41         | 1.00                   | 0.00                                     | 0.00                                     | 0.00                        | 0.00                                 |

Past performance is not a guarantee of future results. Indices are unmanaged and not available for direct investment.

# The Triple Bottom Line

## SOCIAL

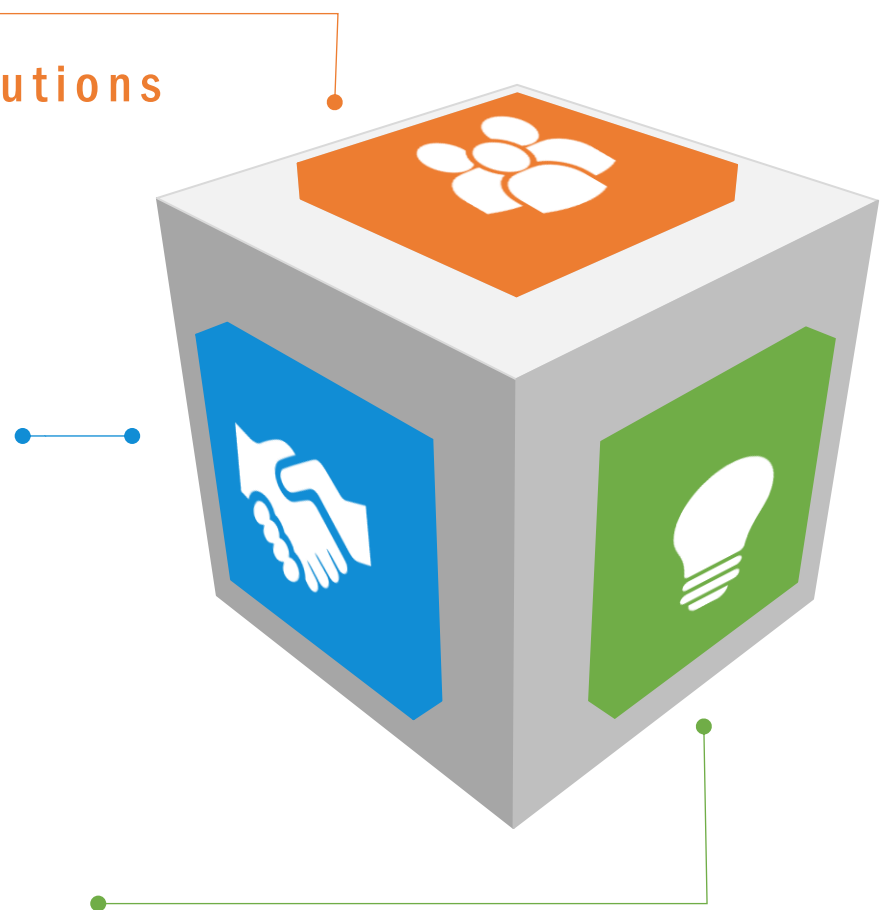
- Charitable contributions
- Fair trade
- Employee welfare

## ECONOMIC

- Growth
- Revenue
- Cost

## ENVIRONMENTAL

- Consumption
- Land use
- Waste management





## CASE STUDY – GAMESA

Based in Spain, the company specializes in the promotion and development of wind farms, as well as the engineering, design, production and sale of wind turbines for electrical power.

The company is also engaged in the business of operating, managing, and maintaining wind farms.

Gamesa





## CASE STUDY – TESLA

Based in Palo Alto, CA, and founded by famous entrepreneur Elon Musk, Tesla designs, develops, manufactures and sells fully electric vehicles, as well as energy storage systems for commercial and residential use.

Tesla has also recently entered the solar panel market.

# Academy Partners



## INVESTOPEDIA

**Investopedia is the world's leading source of financial content on the web, with more than 20 million unique visitors and 60 million page views each month.**

Wholly owned by IAC (NASDAQ: IAC), Investopedia is the largest financial education website in the world. Powered by a team of data scientists and financial experts, Investopedia offers timely, trusted and actionable financial information for every investor, from early investors to financial advisors to high net worth individuals.



## UKSIF

**The UK Sustainable Investment and Finance Association (UKSIF) is the membership association for sustainable and responsible financial services.**

UKSIF promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.

They also seek to ensure that individual and institutional investors can reflect their values in their investments



## Eurosif

**Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment across Europe, for the benefit of its members.**

Eurosif is an International Not for Profit Association (AISBL) created under Belgian law.

Each national member National Social Investment Forum (SIF) of Eurosif is represented at the Board of Eurosif.



## Responsible Investor

**Focusing on business-critical news and data, Responsible Investor is the only dedicated news and events service covering responsible investment, ESG and sustainable finance for institutional investors globally.**

Responsible Investor has also been producing outstanding industry events since 2008, including three flagship conferences in New York, Tokyo, and London.

# Bespoke Modules

**Clients can have access to specific modules developed for certain more detailed aspects of SRI.**



**Clients can access all modules including modules that can be developed specifically for their organisation.**



**Clients can have their own branded version of the SRI Academy.**



# Legal Information

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