Qualitative Fund Research

Candriam Sustainable Global Equity Fund

22 April 2024

RESEARCH IP Rating

The views and opinions in this document are considered valid for one year from the date published.

Qualitative Fund Research Contents

Rating Profile

Research Process Category	Factor Weight	Analyst Score	Maximum Score
Corporate & Investment Governance	15%	4.25	/ 5
Investment Philosophy & Process	20%	4.00	/ 5
People	25%	4.67	/ 5
Portfolio Construction & Implementation	15%	3.67	/ 5
Risk Management	15%	4.80	/ 5
Investment Fees	10%	4.43	/ 5
Overall Average Score		**4.32**	**/ 5**

Meet the Manager

Candriam Belgium SA (known as Candriam Investors Group) specialises in traditional management, sustainable and responsible investment, and alternative investment solutions. Candriam has funds under management of EU$150 billion with a team of more than 600 professionals. Candriam is a wholly-owned subsidiary of New York Life Insurance Company. Further information on the Manager can be found in its online profile.

Candriam is a pioneering Sustainable and Responsible Investment (SRI) manager, having been active in this space for over two decades. Candriam takes into account Environmental, Social and Governance (ESG) factors over and above the usual financial criteria applied to investment decisions. Company analysis considers not only the various stakeholders (including clients, suppliers, employees, and society at large) but also global sustainability trends to which they are exposed (including climate change, demographic evolution, resource depletion and health and well-being). This process helps to identify the long-term opportunities and risks for companies.

Ausbil Investment Management Limited is a leading Australian investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil manage over $16.4 billion1 in active Australian and global equity investments. Ausbil is owned by its employees and New York Life Investment Management (NYLIM), a wholly owned subsidiary of New York Life Insurance Company. NYLIM has more than US$650 billion in assets under management. NYLIM has several boutique affiliates including MacKay Shields, Candriam Investors Group and Apogem Capital. Further information on the Manager can be found in its online profile.

Ausbil Investment Management (Ausbil) is the Fund Manager/Responsible Entity and has delegated the financial management to Candriam. The ultimate parent of both entities is New York Life Insurance Company.

The Manager has provided individual bios for the team.

Access the full range of investment options here.

Key Takeouts

The Candriam Sustainable Global Equity Fund ("the Fund") is a core-strategy global developed markets equity fund benchmarked to the MSCI World (in AUD and with net dividends reinvested).

Candriam's sustainable management philosophy generates alpha from two distinct sources. The first source of alpha is our sustainable investment universe, which consists only of issuers that optimally manage the themes related to sustainable development. The second results from detailed quantitative analysis coupled with a risk-controlled portfolio construction process. Sector, region and style biases in the portfolio are minimized to ensure that only stock specific factors drive portfolio performance rather than systematic risk biases or predetermined investment themes.

Research IP Says

"Research IP notes the impact of two separate teams in managing this Fund, the Quantitative Equity Management Team (lead by Bart Goosens) and the ESG Investment and Research Team (lead by Wim Van Hyfte). Goosens has over 30 years' experience (including 27 at Candriam). The overall team has an average of over 20 years' experience. The academic qualifications of the team are principally in finance, economics, and accounting. The team lead by Van Hyfte oversees the provision of ESG information to all investment teams irrespective of strategy. This dedicated ESG team is large in absolute terms but also proportionate to rest of investment team. There are 19 ESG analysts, with 18 focused on corporate investments, and 1 on government holdings. There is also a dedicated engagement team. "

"Research IP believes this is one of the few 360-degree ESG processes. To date this has been well executed. The challenge will be staying on top of this multi-faceted approach in an ever-evolving landscape. "

"Research IP notes that this strategy is categorised as 'Article 9' under the European Union's Sustainable Finance Disclosure Regulation. This means the Manager/Fund has met the stringent regulatory technical standards that demonstrates the integration of sustainability risks and a sustainable investment objective. Most funds Research IP has reviewed readily claim Article 8. Article 9 is viewed very much as the next level up and requires greater focus, resources, and attention to detail."

The Fund

Fund Details	Candriam Sustainable Global Equity Fund
Fund Code	APIR Code: AAP0001AU
Responsible Entity / Trustee	Ausbil Investment Management Limited
Geographic Focus	Global
Sector / Asset Class	Shares
Investment Objectives	The Candriam Sustainable Global Equity Fund seeks to achieve returns (before fees and taxes) in excess of the benchmark over the medium to long term. There is no guarantee that this objective will be achieved.
Benchmark	MSCI World Index (Net Dividends Reinvested) $A – Unhedged.
Alpha Objective	Aims to outperform the benchmark over a rolling five-year period. The tracking error target is 2% to 4%, but this is not a hard constraint.
Management Fee	0.75% p.a.
Performance Fee	N/A
Estimate of Total Fund Charges	0.75% (inc GST) – September 2023 Responsible Entity Fee: 0.05125% Indirect Costs: 0.17875%

Using this Fund

This Fund is designed for investors with at least a five-year investment time horizon, who wish to benefit from the long-term capital gains available from global equities investments and who are comfortable with fluctuations in capital value in the short to medium term.

Investors should be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. Research IP believes an investor should have a minimum investment time horizon of seven years, preferably longer.

Factor	Lower Limit	Upper Limit	Reference
Typical number of holdings	Typically, 100	Typically, 300	

Funds Under Management

Fund currency	AUD
Current size of the Fund ($)	$100,717,236
Current FUM in the strategy, including mandates ($)	$100,717,236
Current total FUM of the Manager ($)	US$ 159 billion

Quantitative Tear Sheet - https://portal.research-ip.com/

Platform is FREE to access via registration – performance data updated monthly.

Factsheet ***Report*** ***PDS*** ***Articles / Views***

For important Fund Facts view the RIPPL Effect

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

What the Manager Says

Who holds accountability for the fund's outcomes and actions? How relevant is the work / career history of the investment team to the management of the funds?

Manager Statement:

The Quantitative Equity Management Team is led by Bart Goosens, CFA, who manages both Active Strategies and Indexing Solutions. The Team designs, maintains, and implements proprietary quantitative processes based on over fifteen years of in-house research and experience. The Team continuously refines processes based on academic literature and proprietary research. Candriam Sustainable Global Equity is managed by the Active Strategies team, which consists of seven members. The lead managers of the strategy are Bart Goosens, Tanguy Cornet, and Dave Benichou. In addition to Candriam Sustainable Global Equity, the Active Strategies team manages many dedicated funds, and separately managed accounts in both the traditional and ESG investment areas.

Shown below is the organisational chart of the Active Strategies team within the Quantitative Equity Management team:

Research IP Opinion:

Research IP recognises the influence of two separate teams in managing this Fund, the Quantitative Equity Management Team (lead by Bart Goosens) and the ESG Investment and Research Team (lead by Wim Van Hyfte).

Goosens has over 30 years' experience including 27 at this firm. The team overall have on average over 20 years' experience. The academic qualifications of the team are predominantly in finance, economics, and accounting.

The ESG team lead by Van Hyfte oversees providing information on ESG to all investment teams irrespective of strategy. This dedicated ESG team is large in absolute terms but also proportionate to rest of investment team. There are 19 ESG analysts, where 18 are focused on corporate investments, and 1 on government holdings. There is also a dedicated engagement team within this group.

Two members of the quant team (Sébastien Jallet and Tanguy Cornet) interpret the ESG information provided to them from the ESG team. For example, the carbon-for-finance database is analysed by the quant team, but the information is gathered/collated by the ESG team. Jallet and Cornet will analyse the forward-looking data and assess how to integrate it into the process.

Has the CIO/ PM / Investment Team personally invested in the Fund? Do they have the same fee / cost structure as other investors?

Manager Statement:

The PM is invested in the Fund. The CIO is not invested in the Fund (Ausbil). The broader Candriam and Ausbil teams are invested in this Fund. Manager Fee rebates are available for all staff (Ausbil) investing in this fund.

Research IP Opinion:

Investing in funds alongside investors and at the same fees aligns the interests of investment personnel with those of the investors. The management fee rebate made available to the staff is not completely aligned with investors' interests but can serve some useful purpose as a staff recruitment/retention tool. Nevertheless, the individual commitments from the investment team into the strategy are a strong indicator of their confidence and belief in the process.

Research IP believes the investment team across Candriam, Ausbil and New York Life can and do invest in the relevant structure for their domicile. This is expected due to the global nature of the broader New York Life operation.

What are the reasons for investing in this fund?

Manager Statement:

Investing in the Fund offers a range of benefits, including:

- Exposure to best-in-class global sustainable companies: access to international listed companies that individual investors may not be able to identify and invest in directly on their own.
- Diversification: the potential to diversify an investment portfolio.
- Experienced team: access to a highly experienced investment team who specialise in global ESG portfolios.
- Disciplined risk management: access to Candriam's disciplined risk management process that manages risk relative to anticipated investment returns.
- Expertise: access to investment expertise and knowledge of Candriam's investment management and ESG professionals, who combine their in-depth fundamental analysis and using the output of proprietary quantitative models, apply their strongest investment convictions regarding portfolio construction

The Candriam Sustainable Global Equity Fund is a core-strategy global developed markets equity fund benchmarked to the MSCI World (in AUD and with net dividends reinvested). The investment objective of the fund is to outperform the benchmark over a rolling five-year period. The tracking error target is 2% to 4%, but this is not a hard constraint. Candriam's sustainable management philosophy generates alpha from two distinct sources. The first source of alpha is our sustainable investment universe, which consists only of issuers that optimally manage the themes related to sustainable development. The second results from detailed quantitative analysis coupled with a risk-controlled portfolio construction process. Sector, region and style biases in the portfolio are minimised to ensure that only stock specific factors drive portfolio performance rather than systematic risk biases or predetermined investment themes.

Currency Risk

Currencies have no impact on stock-selection decisions nor does the fund implement an active currency allocation strategy. As the fund is region-neutral and, consequently, neutral on all major currency blocks (Dollar, Euro, Yen), currency exposures arise mainly from the country deviations within regions (e.g., Europe) that might occur as a result of the bottom-up stock-selection process. Historically, these exposures have been very limited.

Operational Risk including trading, compliance, settlement risk and counterparty exposures.

Key Risk Indicators

The Operational Risk Committee reviews the level and the evolution of key risk Indicators, which are predominantly produced by the COO team. These key indicators enable the teams to monitor the evolution of the operational risk and determine if additional measures must be implemented.

Research IP Opinion:

Research IP observe the following key characteristics of the Fund:

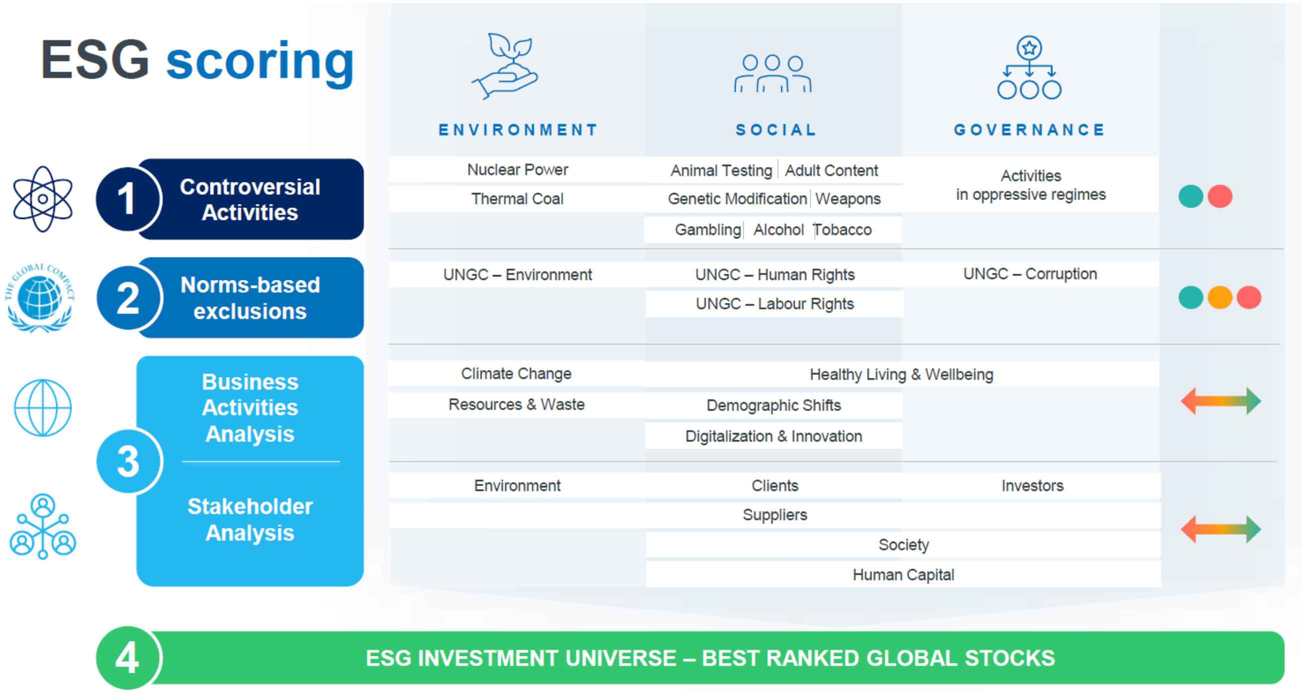
- **'Quantamental' approach**, a portmanteau word – quantitative and fundamental. The Manager is heavily focused on building the depth and breadth of fundamental data across the portfolio holdings.
- **Core global allocation**. Through the quantamental approach, the Manager aims to outperform the MSCI World Index without any bias to sectors or regions. Instead, the Manager optimizes the portfolio by selecting the best stocks within each sector and region.
- **Focus on sustainable development.** This focus permeates its way through the investment strategy in multiple ways (please see the section describing ESG, Corporate Sustainability policies and engagement). The large, dedicated ESG team also demonstrates the commitment of the Manager to sustainability issues.

What are key criteria for the buying and selling decisions of the Fund?

Manager Statement:

The fund's investment process is based on 3 steps:

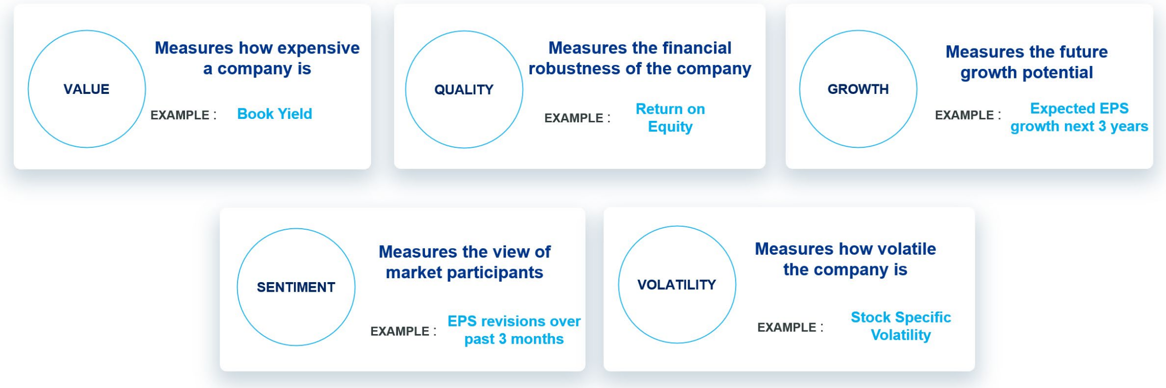
1. ESG Analysis: a proprietary framework developed by in house ESG Analysts based on 3 pillars:



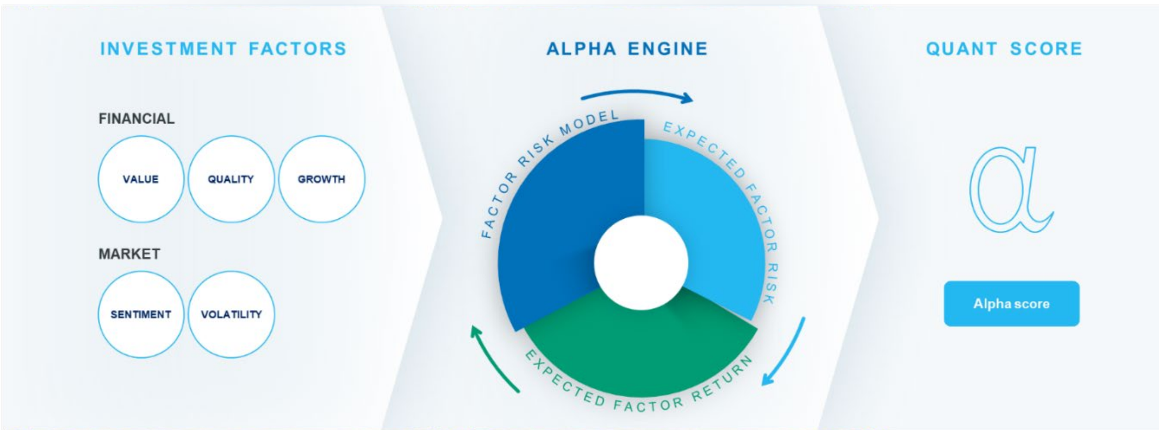
- Activity Exclusions & Norms Based Screening: consist of a negative screening of issuers that do not embody sustainability.
- Business Activities Analysis: Every business is impacted by sustainability challenges defined around 5 global themes (Climate change, resources & waste, digitalization & innovation, healthy living and wellbeing, demographic shifts). Sustainable Development Goals (SDG) are embedded within our analysis.
- Stakeholder Analysis: consist of analysing how each company manages its key stakeholders (Investors, Human Capital, Suppliers, Environment, Clients, Society) with a sector-based approach to focus on the most relevant factors.

2. Alpha Model:

To evaluate a company's financial attractiveness, the Quantitative Equity team assesses their exposure to a number of Investment Factors such as Value, Quality, Growth, Market Sentiment, and Volatility. These Investment Factors have been identified based on academic literature, proprietary research and over a decade of hands-on market experience, insight and intuition. They are relatively uncorrelated and when considered together enable the Equity team to assess the expected risk and return characteristics of all companies in the universe.



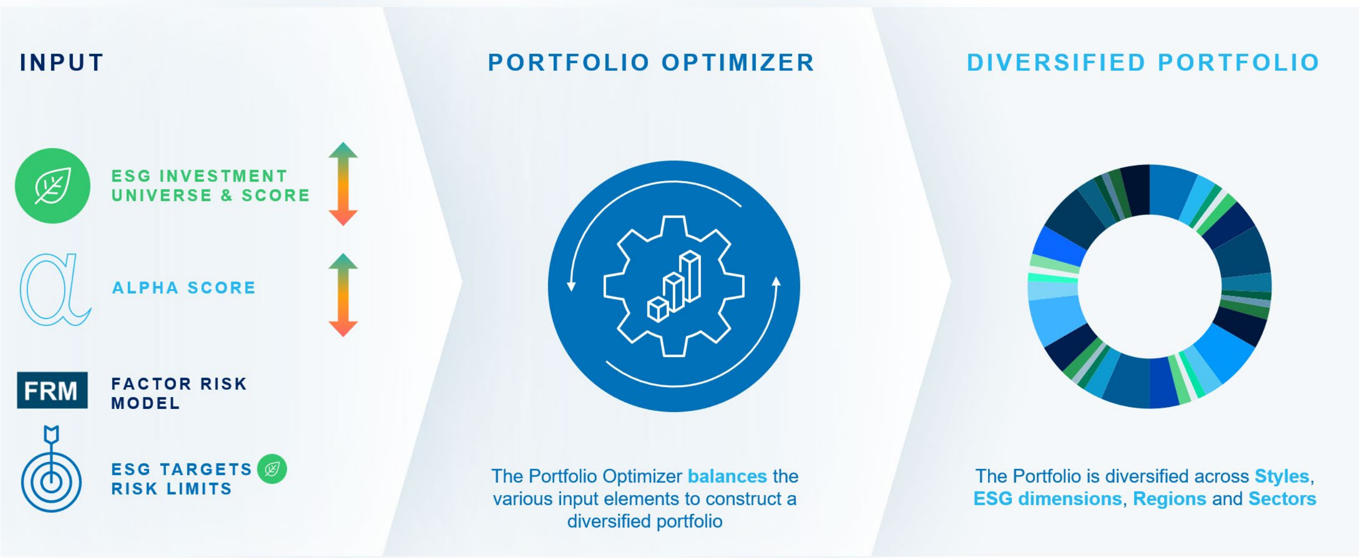
Using these investment factors the quant team constructs a fundamental factor risk model and calculates risk and return estimates for each factor. These estimates are then combined using a proprietary framework based on modified Black-Litterman approach to produce an expected alpha score (risk adjusted return) for each stock in the universe. The alpha score takes into account the exposure of each stock to the various investment factors, the expected risk and return of these factors as well as the covariance amongst the factors.



Stocks with an attractive alpha score tend, on average, to be attractively priced, have good growth prospects, are profitable and benefit from a positive market sentiment while the opposite is true for stocks with an unattractive alpha score.

3. Portfolio Construction:

The ESG universe and ESG scores are combined with the alpha score and a diversified portfolio is constructed by taking into account specifically the strategy's ESG objectives and risk limits.



In order to construct a diversified portfolio that combines ESG, financial and risk dimensions simultaneously, the quant team uses a portfolio optimizer.

The following elements are fed into the system:

- The ESG universe and ESG score for each stock in the universe.
  - Only stocks that are part of the ESG universe are potential candidates for inclusion into the portfolio.
  - The ESG score will be used as an overall portfolio objective. The average ESG portfolio should be higher than that of the benchmark (see ESG objectives below)
- The alpha scores for each stock in the universe
  - Stocks with higher alpha scores are preferred relative to those with lower scores subject to the other objectives and constraints.
- The Factor Risk Model
  - The factor risk model is used to manage the expected risk of the portfolio at various levels (stock specific, style, overall tracking error, etc.)
- The ESG targets

  Several ESG targets are set on the portfolio level. Some examples include:
  - Overall ESG score of the portfolio – should be higher than that of the benchmark.
  - Carbon Intensity – should be at least 30% lower than the benchmark's carbon intensity.

  Other ESG objectives will be added in a later stage; This is one of the key research areas of the team.
- The risk limits
  - Risk limits on several levels (stock, sector, region, liquidity, style exposure etc.) are applied in order to ensure a well-behaved portfolio with sensible return/risk trade-off.

The portfolio that is the result of this process is well diversified and is tilted towards stocks that score well on Environmental, Social and Governance criteria. On average these stocks tend to be attractively priced, have good growth prospects, are profitable and benefit from a positive market sentiment. The overall carbon intensity of the portfolio is lower than that of the benchmark.

The alpha model and portfolio construction process described above are fully automated and systematically implemented each month. At the time of the rebalancing, this optimal portfolio is compared with the existing portfolio and a trade list is generated to bring the actual portfolio in line with the optimal portfolio. However, prior to trade execution, all trades are validated by the team in order to make sure that all relevant and available information is considered.

More generally, the Team boasts an extensive history in quantitative equity research. They consistently assess the effectiveness of their stock-picking models to ensure competitiveness and alignment with expectations. With the goal of refining their quantitative equity models and enhancing alpha generation, the Team actively investigates existing factors while exploring untapped alpha drivers that can augment the current set of alpha factors.

Research IP Opinion:

The foundation of the Manager's investment process is the analysis of ESG and the quantitative analysis that results in an alpha score for stocks within the global universe.

In respect of ESG analysis, Research IP notes there are a range of approaches taken to assess ESG considerations. These include integration of ESG factors within business and stakeholder analysis, negative and positive screening, and corporate engagement and stewardship. Research IP believes the combination of these approaches gives the Manager a good chance of unearthing value as well as aligning the strategy with investors' values.

Regarding the alpha scoring process, Research IP notes the Manager uses 13 factors within the model (including value, sentiment, quality, and growth). The Manager uses the Black Litterman model to arrive at an expected return and risk for each stock. Inherent in the Black Litterman model is the ability to include a subjective view alongside the strict quantitative aspects.

The model is updated monthly, though the Manager will try to identify factors that may shock the calculations, for example, oil prices or interest rates. The factors are adjusted for each region before being integrated into the global universe. If the alpha score decreases, then the weighting in the portfolio will decrease.

The universe the Manager arrives at through ESG screening is integrated with the alpha scores for each stock in the eventual portfolio construction process. Factor risks at the portfolio level are also assessed, alongside risk limits and ESG targets for the overall portfolio.

Research IP highlights the considerable level of ESG analysis woven through the investment process from beginning to end, both at the stock level and the portfolio level.

What are the key drivers of the Fund's performance?

Manager Statement:

The quantitative investment strategy is developed as an "all-weather" strategy that should consistently outperform the market, defined as the benchmark MSCI World The strategy should perform well during a wide range of market conditions, that is, it should outperform the market, inter alia during bull-bear markets, value or growth trends, periods of small-cap outperformance versus large caps and vice-versa.

The ESG strategy is designed to capture long-term sustainable trends in the market and advocates responsible behaviour towards sustainable development. Sustainability analysis comprises three core approaches to evaluate how sectors and companies best manage long-term sustainability-related challenges. Hence, current market conditions or economic cycles do not impact the ESG process.

Performance objectives are formulated relative to the fund's strategy targets. We believe that a combined ESG-Quant strategy has the potential to outperform the market over a period of 3 to 5 years after costs. Hence, underperformance against the benchmark MSCI World over that period would be considered as deficient performance. Over the last few years, the fund has met those performance objectives. The fund has no short-term performance objectives, as this would be inconsistent with its strategy.

There are significant risks associated with managed investment schemes generally. You should be aware that: the value of investments will vary; the level of returns will vary, and future returns may differ from past returns; returns are not guaranteed and members may lose some of their money; laws affecting registered managed investment schemes may change in the future; and the level of risk for each person will vary depending on a range of factors including age, investment time frames, where other parts of the member's wealth are invested and the member's risk tolerance.

The key risks associated with the Fund are summarised below:

Security risk

The value of a security (i.e. a share in a company) may be affected by market sentiment and other factors that may impact the performance of the actual company. Share markets tend to move in cycles, and the individual share price of a security may fluctuate and underperform other investments over extended periods of time.

Currency risk

The risk that the value of, or returns on, investments of the Fund will change due to movements in the exchange rate between the local currency and the Australian dollar.

International investment risk

- Differences between countries relating to accounting, auditing, financial reporting, taxation, government regulation, securities exchanges, and transactional procedures.
- Foreign markets have different levels of liquidity, pricing availability, settlement, and clearance procedures.
- Actions of foreign governments, exchange controls, defaults on Government securities, political and social instability.
- Non-resident withholding tax may be deducted from dividend payments made by companies registered overseas.

Market or economic circumstances that would adversely impact excess performance include extended periods of outperformance of large capitalization stocks, and non-ESG companies relative to the benchmark. The fund strategy would, nonetheless, certainly benefit should the overall market value trend towards a sustainable society.

Research IP Opinion:

Research IP believes the primary driver of performance will be the bias to ESG considerations. As stated above, the Manager includes ESG considerations throughout the investment process as a result of their underlying belief that sustainability-related opportunities will drive shareholder value if managed effectively along with financial factors.

The Manager is not trying to outperform through asset allocation decisions but rather through stock specific decisions. The beta of the portfolio is approximately 1. The Manager will take a view on stocks not sectors, though weightings to sectors can be +/-5% against the benchmark.

As a result of bottom-up analysis the weighing to renewable energy within the broader energy sector is high compared to benchmark, making up approximately 90% of the energy sector exposure. The Manager still has exposure to natural gas and oil in the portfolio of which they can invest up to 5%, but overtime the aim is to reduce this down to 4%, then 3% and lower as the climate transition risks change.

The ability to isolate and identify performance attribution to ESG factors is the natural challenge given the complex but evolving nature of ESG data in the market. Research IP believes the Manager is well placed to quantify any attribution given the breath of data sought and subsequently utilised in the quantitative model.

This attribution analysis is also calculated according to the alpha scoring process the Manager applies. The factor analysis combined with bottom-up fundamentals applied through the process is a key part of the Manager's target of identifying stock performance over the long term. The Manager includes valuation, quality, growth, and sentiment factors in the model. All of these are relative to the sector/region the stock is in.

The Manager has stated its belief that the Fund is positioned well for 2024. Some of the gloss is coming off the parabolic outperformance of the Magnificent 7 (Apple, Alphabet, Microsoft, Amazon, Meta Platforms, NVIDIA, and Tesla). The Fund is positioned more to value (42%) than growth (30%), 10% in quality, and the rest in small caps and low volatility.

What are the risks / adverse outcomes that could arise from investing in this Fund?

Manager Statement:

All investments carry risk. The likely investment return and the risk of losing money are different for each managed investment scheme. Different strategies may carry different levels of risk, depending on the assets that make up the strategy. Assets with the highest long-term returns may also carry the highest level of short-term risk. There are significant risks associated with managed investment schemes generally. You should be aware that:

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- the value of investments will vary.
- the level of returns will vary, and future returns may differ from past returns.
- returns are not guaranteed, and members may lose some of their money.
- laws affecting registered managed investment schemes may change in the future; and
- the level of risk for each person will vary depending on a range of factors including age, investment time frames, where other parts of the member's wealth are invested and the member's risk tolerance.

No, the strategy does not use leverage or derivatives.

Research IP Opinion:

The Manager explicitly aims to reduce or eliminate the risk of active decisions around sectors or regions. The focus is on stock specific decisions. An outcome of this is tracking error which the Manager aims to keep between 2-4%. The benchmark contains over 1,500 stocks, while the Manager aims to hold between 100 to 300, with active share typically around 60 to 80%.

Research IP notes the broad range of data the Manager feeds into the model. While this is an automated process, it also has some manual oversight to make sure any powerful changes in the market environment are not missed.

Most of the data flow is automatic and doesn't change much over a year. An example of a data adjustment is carbon data, where the team will align the carbon data of company disclosures to match the financial year.

The Manager plugs in a range of APIs from external and internal data sources. The engineering team writes script from raw data which is updated monthly. A Manager will apply a sanity check where a member of the quant team may check with the ESG team for clarification when necessary. Research IP believes this is an important part of the investment process to help effectively manage risk. Whenever procedures are automated it is still critical to review and revise the process through a more qualitative lens. Research IP believes the Manager applies transparent rationale within the process which will help to improve the offering over time.

An example of human oversight assisting risk management occurred during the US regional banking crisis triggered by the demise of Silicon Valley Bank. As US regional bank prices were plummeting the model wanted to go overweight the sector due to the cheaper valuations. Candriam management overrode that – taking the view to instead limit the increase in exposure to market-weight (from under-weight). This decision was taken as part of a crisis meeting where the team was reviewing the totality of regional bank exposure across both equity and credit positions.

This highlights that it is very important for the top of the decision-making tree to have people with decades of hands-on market experience who can recognise when and what type of crisis needs the model to have a manual override.

What is the justification for the fees and costs that are charged?

Manager Statement:

Ausbil sets the management fee of the fund with the aim of providing certainty for investors and competitiveness with similar funds (investment approach and objective) and distribution channels in the Australia funds market. Ausbil has chosen to only charge a management fee and not recover normal operating expenses, i.e. it adopts a "rolled-up" management fee approach. This gives investors certainty around the management fee charged, and in only very rare circumstances will Ausbil recover abnormal expenses form the Fund.

The fund's fees and costs were benchmarked in October 2020. The benchmarking exercise showed that the fund was relatively expensive when compared to similar funds that were distributed in similar channels.

As a result of the benchmarking conducted in October 2020, the fund's fee structure was simplified and reduced from 1.05% to 0.75%. The revised fee was considered to be more competitive for like funds.

Summary of Fees/Costs

Management costs

Management fee	0.75000%
Responsible entity fee	0.05125%
Indirect costs	0.17875%

Management costs

Management costs comprise the additional fees or costs that you incur by investing in the Fund rather than investing directly in the underlying assets. They include indirect costs but do not include transactional and operational costs (i.e. costs associated with investing the underlying assets, some of which may be recovered from unitholders through buy/sell spreads).

Management fee

The management fee is calculated on the gross asset value of the Fund and is payable to the Responsible Entity for managing the assets of the Fund and overseeing the operations of the Fund. The fee is accrued daily and paid monthly in arrears from the Fund's assets.

Responsible entity fee

The responsible entity fee is calculated on the gross asset value of the Fund at the end of the previous quarter. The fee is accrued daily and paid quarterly in arrears from the Fund's assets.

Indirect costs

Indirect costs are any amount, not already disclosed as a fee or cost, which reduces (directly or indirectly) the value of the underlying investments and the performance return of the Fund. This includes expenses (see below) and may include fees and costs incurred by underlying investment vehicles plus costs involved in trading certain derivative products which are used as part of the Fund's investment strategy.

Expenses

Under the Fund's constitution, the Responsible Entity is entitled to recover expenses incurred in the proper performance of the Fund's operations. For the duration of the PDS the Responsible Entity will recover normal expenses of no more than 0.17875% pa of the gross asset value of the Fund from the Fund and the Responsible Entity will pay any additional amounts from its management fee. However, if the Responsible Entity incurs abnormal expenses, then it may deduct these expenses from the Fund's assets.

Transactional and operational costs

In managing the assets of the Fund, the Fund may incur transaction costs such as brokerage, settlement and clearing costs, stamp duty and bid-ask spreads charged by transaction counterparties when assets are bought and sold. These costs are generally incurred as a result of applications or redemptions from the Fund or when the Fund sells or buys assets as part of its day-to-day trading activities.

As noted above and because of the benchmarking exercise conducted in 2020, The fund's fees were revised (reduced) in October 2020. Ausbil charges a "rolled-up" management fee and generally do not recover normal operating expenses in relation to the fund.

Research IP Opinion:

Research IP believes the Manager is transparent with regards to fee disclosure. Fees are detailed in the Product Disclosure Statement, with additional information in the Additional Information Guide. Both can be accessed at this link.

Research IP observes that the Manager's basic fee is in the lower half of sector peer relevant funds.

Describe the governance processes for managing organisational and investment decisions.

Manager Statement:

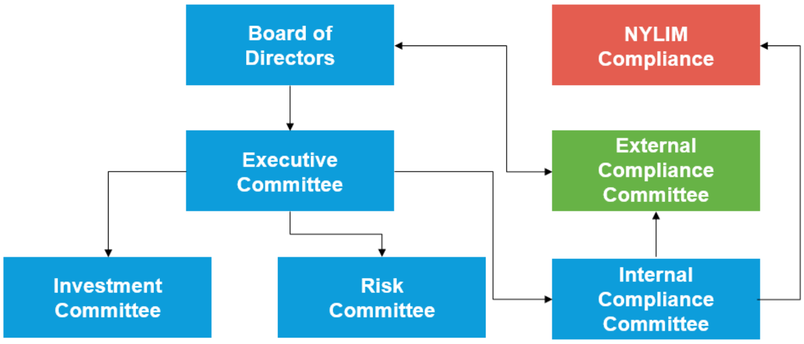
Centralising the execution and monitoring of the orders placed by the portfolio managers:

- Pre-trade process: reception of the order, broker selection, knowledge of trading instructions, limits, and restrictions.
- Trade process: electronic or manual transmission of the order to the broker/counterparty, monitoring of the order execution from end to end.

Post trade process: record keeping, statistics, transaction cost analysis.

Compliance of the Candriam Sustainable Global Equity Fund is performed by Ausbil. Compliance is an independent and dedicated function within Ausbil. Ausbil has appointed a Chief Compliance Officer who is responsible for the day-to-day compliance management of Ausbil. Ausbil's Chief Compliance Officer has a reporting line direct to NYLIM compliance.

The following diagram summarises the reporting lines of the internal and external compliance committee:



Kristy Do, General Counsel and Chief Compliance Officer

Kristy is the General Counsel and Chief Compliance Officer at Ausbil. Kristy has over 20 years' experience in the legal profession and the financial services industry. Prior to joining Ausbil, she operated her own consulting firm providing legal, compliance and risk management services to the industry and in particular asset and wealth managers, was General Counsel and Company Secretary for Nikko Asset Management in Australia and was also with ANZ Wealth and Mirvac Group. She also spent over 5 years with the Australian Securities and Investments Commission in enforcement litigation and compliance roles ending her service there as Manager of the Compliance Directorate for Financial Services responsible for ensuring compliance with Australian financial services law by large entities regulated by ASIC. She holds an unrestricted practising certificate from the Law Society of New South Wales. She volunteers as a Co-Opted Member of the Board Governance Committee for Lifeline Australia.

Tyson Cannizzaro, Chief Compliance Officer of SEC – Global Equities, Compliance Analyst

Tyson is one of Ausbil's Compliance Analysts and retains day-to-day responsibility for the compliance of Ausbil's risk and compliance policies, procedures, and registers in addition to supporting internal stakeholders with compliance queries and obligations. Tyson has been with Ausbil since February 2020, and has been working in financial services since 2008. Prior to joining Ausbil, Tyson worked at the Australian Prudential Regulation Authority (APRA) as a Senior Risk & Compliance Analyst. Tyson has also worked as a Senior Compliance Manager at both IOOF and Total Financial Solutions (part of the CountPlus group). Tyson holds a Bachelor of Laws (Honours) and a Bachelor of Commerce degree from Deakin University, as well as a Graduate Diploma of Legal Practice from the College of Law and a Diploma of Financial Planning from Kaplan Professional.

Anna Copeland, Compliance Analyst

Anna is one of Ausbil's Compliance Analysts and retains day-to-day responsibility for the compliance of Ausbil's dealing activities, including managing and monitoring the Bloomberg AIM system's application of mandate and fund rules, particularly with respect to dealing activity. Anna has been with Ausbil since 2007 and has been responsible for developing and implementing various trading controls and compliance procedures. Anna has been Compliance Analyst since 2016. Prior to this, Anna worked as a Portfolio Analyst, and in middle office. Before joining Ausbil, Anna worked at BNP Paribas in equities administration, and in broking at ASB Securities and ABN AMRO Craigs. Anna holds a Bachelor of Business (Finance) degree, and an NZX Diploma from the New Zealand Stock Exchange.

Research IP Opinion:

Research IP highlights the use of proprietary portfolio risk model built by the Manager, rather than using an off-the-shelf model like Barra etc. The reason for this was due to underlying definitions of the some of the factors built into the standard models. For example, the Manager had an issue with how 'value' was defined and calculated, which meant it didn't fit into the Manager's definition of value in the quantamental approach.

Within the Manager's risk management team, RiskMetrics and Charles River software is used to monitor various risks across the investment management process. The risk management team is independent from the investment team and reports directly to the Executive Committee (responsible for operational decisions).

External (from NY Life) and internal system and risk audits are undertaken on the Manager. Every new model that the Manager builds must be checked by the risk team before it is launched given the risk of code errors. Models are programmed in MATLAB, but also parallel in Python by using the same inputs to ultimately obtain the same output.

A tactical committee is an important part of the risk management of the portfolio. This is held monthly to discuss any issues and comprises the quantitative equity team, including the global head Goosens, and CIO Vincent Hamelink (also 1 of 18 members of the Executive Committee).

Research IP observes robust compliance and governance structures in place within the organisation. In terms of software and compliance systems, Research IP believes the Manager is transparent and well-placed to manage operational risk within the investment process.

Describe how the Manager implements ESG, Corporate Sustainability policies and engagement.

Manager Statement:

In order to construct a diversified portfolio that combines ESG, financial and risk dimensions simultaneously, the quant team uses a portfolio optimiser.

The following elements are fed into the system:

- The ESG universe and ESG score for each stock in the universe.
    - Only stocks that are part of the ESG universe are potential candidates for inclusion into the portfolio.
    - The ESG score will be used as an overall portfolio objective. The average ESG portfolio should be higher than that of the benchmark (see ESG objectives below)
- The alpha scores for each stock in the universe

  - Stocks with higher alpha scores are preferred relative to those with lower scores subject to the other objectives and constraints.
- The Factor Risk Model
  - The factor risk model is used to manage the expected risk of the portfolio at various levels (stock specific, style, overall tracking error, etc.)
- The ESG targets

  Several ESG targets are set on the portfolio level. Some examples include:

  - Overall ESG score of the portfolio – should be higher than that of the benchmark.
  - Carbon Intensity – should be at least 30% lower than the benchmark's carbon intensity.
  - Other ESG objectives will be added in a later stage; This is one of the key research areas of the team.
- The risk limits
  - Risk limits on several levels (stock, sector, region, liquidity, etc.) are applied to ensure a well-behaved portfolio with sensible return/risk trade-off.

The portfolio that is the result of this process is well diversified and is tilted towards stocks that score well on Environmental, Social and Governance criteria. On average these stocks tend to be attractively priced, have good growth prospects, are profitable and benefit from a positive market sentiment. The overall carbon intensity of the portfolio is lower than that of the benchmark.

(1) Buy and Sell Discipline

The portfolio is rebalanced on a scheduled basis. During the rebalancing process changes regarding ESG, financial and risk characteristics that happened since the previous rebalancing are evaluated simultaneously and a trade list is generated to bring the portfolio in line with the latest information. Trades are executed at low cost, typically via program trading. Transaction cost analysis is performed on both a pre-trade and post-trade basis.

Stocks will generally be bought (sold) for one or a combination of the following reasons:

- The ESG characteristics of the stock improved (deteriorated) leading to a higher (lower) ESG score and inclusion into (deletion from) the eligible ESG universe.
- The financial characteristics of the stock improved (deteriorated) leading to a higher (lower) alpha score.
- The portfolio level ESG objectives (for example Carbon Intensity) require the stock to be purchased (sold) based on its score on this metric.
- The portfolio level risk objectives (for example Sector level limits) require the stock to be purchased (sold) based on its characteristics regarding this risk dimension.

In between scheduled rebalancing dates, trades are generally the result of subscriptions or redemptions in the fund. Apart from the reasons mentioned above no other trades are typically generated. The exception to this rule is the release of material information regarding the ESG, financial or risk characteristics of a position that required immediate action.

The investment team uses inputs from external providers. Nevertheless, all research is conducted in-house. The quant team has developed a proprietary quantitative, multi-factor, bottom-up equity analysis processes based on more than fifteen years of in-house research and experience.

The investment universe of the fund is the MSCI World Index (+/-1650 securities). Starting from the MSCI World Index, the ESG team constructs the Eligible ESG Universe using our in-house ESG proprietary analysis comprising the following:

- Weapons and Controversial Activities screening: we exclude companies with exposure to activities that do not embody sustainability,
- Norms-Based Analysis: companies must respect the four principles of the UN Global Compact,
- Business Activities Analysis: we assess company exposure to five key sustainable challenges central to Long-Term Sustainability,
- Stakeholders Analysis: companies are evaluated on their management of six types of stakeholders,
- Stewardship: Dialogue and Proxy Voting are central to our investment process.

We select a universe of the best positioned companies per sector based on sustainability metrics. In contrast to exclusion methods of investing, Candriam's approach analyses ESG factors to identify companies which offer both value and values.

Candriam has been a signatory of UNPRI since 2006 and hold a rating of A+ (as at 2020).

Further information can be found in the Candriam Responsible Investment Policy.

Research IP Opinion:

Candriam's investment philosophy has consistently centred around ESG principles and screening processes, predating their widespread popularity. The Manager employs multiple approaches to ESG and responsible investment. These are positive and negative screens, integration of ESG factors, corporate engagement and proxy voting, and sustainability themed investments. The investment team sources ESG-related information from multiple sources including academic experts, sector federations, the media, and NGOs. More information on the complexities of ESG is presented here. Research IP believes this is one of the few 360-degree ESG processes. To date this has been well executed. The challenge will be staying on top of the multi-faceted approach in a changing landscape.

Screening

Negative screens and norms-based positive screens are used by the Manager. Research IP observes a comprehensive exclusion policy (available here) that is primarily based on revenue thresholds but also carbon intensity, % of power production, or capital expenditure. If any of the thresholds are broken, the portfolio manager has one month to sell the stock. The norms-based screen is centred on the UN Global Compact principles.

Integration of ESG factors

The Manager integrates ESG through both business and stakeholder analysis. Research IP believes the Manager's implementation of this approach is comprehensive and is evident through the investment process, from the initial screening of the investable universe to the final step in constructing the portfolio.

Corporate engagement and proxy voting

Research IP observes extensive engagement and voting policies, as well as the outcome of these in the Annual Engagement & Voting Report. Importantly, any outcomes of engagement with a company feeds back into the overall view on that stock and whether or not it is included in the portfolio.

Sustainability themed investments

This is evident within the Manager's scoring of business activities against five trends/thematics (climate change, resources & waste, digitalisation & innovation, healthy living & wellbeing, and demographic shifts).

Research IP notes that this strategy is categorised as 'Article 9' according to the European Union's Sustainable Finance Disclosure Regulation. This means the Manager has met the regulatory technical standards for the investment product that demonstrates the integration of sustainability risks and a sustainable investment objective. Most funds Research IP has reviewed readily claim Article 8. Article 9 is viewed very much as the next level up and requires significantly greater focus and attention to detail.

Broadly speaking, the Manager does not manage strategies that do not incorporate ESG. This is not necessarily an out-and-out green shop, but funds under management are biased toward ESG strategies.

How does the ownership of the Manager and the compensation of the investment team align with the investors' interests?

Manager Statement:

Variable compensation is compliant with all applicable legal directives (AIFM requirements, approval by F.S.M.A. (Financial Services and Market Authority, the AMF (Autorité des Marchés Financiers) and the C.S.S.F. (Commission de Surveillance du Secteur Financier) and foresees differed payments.

In order to determine variable compensation levels, Candriam considers quantitative and qualitative data.

- Quantitative data emphasize one-and three-year performance.
- Qualitative factors include service and attitude towards clients, teamwork, compliance with internal and risk management procedures, consistency, and alignment with the Candriam strategy, and growth in assets under management.

Heads of units responsible for investment processes and dedicated ESG portfolio managers are evaluated on the following elements also:

- ESG Analysis Team: The quality of the ESG selection and its financial contribution to funds and mandates; new projects to promote ESG integration and to elevate standards and best practices in the field of ESG, such as internal training, reports, and communication; participation in events or press communication related to ESG issues are key objectives that are directly related to the financial reward and personal development processes.
- Portfolio Managers and Heads of Investment Processes in charge of ESG portfolios: The performance and net new cash of ESG funds and portfolios, participation in the promotion of ESG, as well as their efforts to integrate further ESG factors in traditional investment processes are key in their personal development and financial reward processes.

Pursuant to the Alternative Investment Fund Managers Directive (2011/61/EU), some variable compensation (above a certain threshold) is subject to a minimum vesting period of three years.

For employees whose variable remuneration is above a specific threshold, 50% of variable remuneration is paid over the subsequent three years.

Part of the deferred remuneration is paid in Candriam equities, which vest three years after the award, and another part is paid in cash indexed on Candriam's main funds.

The deferred variable compensation is paid only if the following criteria are met:

- The PM or other investment professional is employed by the company at the time of payment.
- The beneficiary's performance has not significantly declined.
- The beneficiary has not taken decisions or behaved in a way which can prejudice the company.
- The overall profit of Candriam is not negative.

Research IP Opinion:

Research IP highlights the range of ESG factors considered when assessing the variable compensation of the teams. These are both quantitative (e.g. net new cash into the Fund) and qualitative (e.g. promotion of socially responsible investing).

Research IP views the vesting period of 3 years for the equity interest as evidence of strong alignment with investors. This is important, particularly for a long-term investment into a Fund such as this one. Despite not being aligned to the investment time horizon an investor should remain invested for 7 years or more.

Research IP believes the Manager is transparent on ownership and remuneration incentives. This encourages a cohesive team environment, working in the same direction as their investors. Evidence to date suggests the incentives have worked based on the length of time at the firm for each of the portfolio management team. Only one member has been at the firm for less than 10 years, and most have been with the firm for around 15 years or more.

Research IP views the financial backing of New York Life Investments (NYLI) as a positive and believes Candriam has the autonomy needed to operate the Fund and service clients prudently. The approximately 9% equity ownership through principals and senior executives is important to maintain the direction and alignment with investors.

Research IP notes that Ausbil oversees distribution and customer service for this strategy in Australia. Ausbil is also majority owned by NYLI.

Comment on assets under management, fund flow and capacity.

Manager Statement:

As of 31 December 2023, the Candriam Sustainable Equity strategy has a FUM of $100.7m.

As of 31 December 2023, the CYTD Net FUM flow for the Candriam Sustainable Global Equity strategy is -$506.1m.

The Fund Manager is responsible for 54 accounts, which is broken up between trusts, mandates and SMAs.

The expected capacity for the strategy is $6.9bn.

Research IP Opinion:

Research IP believes the Manager has sufficient resources to be able to manage Fund liquidity adequately. At the current size, the capacity constraints are not a concern. Turnover of stock holdings is considered in the portfolio construction model. The Manager has liquidity monitoring procedures in place and ultimately aims to evaluate if exposures could be sold in one day at a reasonable cost.

Across the Manager's product suite, about half of the FUM are active strategies. The other strategies encompass enhanced indexing (42%) and tailor-made strategies (10%).

The RIPPL Effect

For important Fund Facts, please view the **RIPPL Effect report**:


Investment Fund

click here to access dynamic report

RIPPL Effect

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Glossary of Terms – please explain the jargon in this report

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Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include:

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- equity, bond and alternative asset specialists
- portfolio managers
- asset allocation analysts
- and ratings specialists.

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