

Product name:

Legal entity identifier

IndexIQ - Factors Sustainable Europe Equity

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Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

☒ ☐ Yes

☒ ☐ No

☐ It will make a minimum of **sustainable investments with an environmental objective**: _%

☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ It will make a minimum of **sustainable investments with a social objective** _%

☒ It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 33 % of sustainable investments

☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☒ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☒ with a social objective

☐ It promotes E/S characteristics, but **will not make any sustainable investments**



What environmental and/or social characteristics are promoted by this financial product?

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

The Sub-Fund promotes Environmental and Social characteristics by :

- Aiming to avoid exposure to companies that present structural risks that are both material and severe and are most seriously in breach of normative principles taking into account practices in environmental and social issues as well as compliance with standards such as the United Nations Global Compact (UNGC) and the OECD Guidelines for Business standards;

- Aiming to avoid exposure to companies that are significantly exposed to controversial activities such extraction, transportation or distribution of thermal coal, the manufacturing or retailing of tobacco and production or sale of controversial weapons (anti-personnel mines, cluster bombs, chemical, biological, phosphorus weapons white and depleted uranium).

In addition, Candriam ESG research methodology is integrated within the investment process. Finally, the Sub-Fund aims to invest a minimum proportion of its assets in Sustainable

Investments.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund.

● ***What Sustainability Indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The sustainability indicators used to measure the attainment of environmental and social characteristics are as follows :

- indicator to assure that there are no investments in issuers that are in violation with the UNGC or OECD Guidelines for Multinational Enterprises;
- indicator to assure that there are no investments in companies that are on the Candriam's Level 3 SRI exclusion list as a result of the application of Candriam's Exclusion Policy;
- number of holdings for which Candriam voted.

● ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

The sustainable investments that the Sub-Fund partially intends to make aim to have a positive impact on environment and social domains in the long-term.

The sustainable investments present in the Sub-Fund do not systematically have one or more environmental objectives. Nevertheless, being subject to Candriam's proprietary ESG analysis and screening, these sustainable investments may contribute on the long term to one or more of the following environmental objectives set out in Article 9 of Regulation (EU) 2020/852:

- (a) climate change mitigation;
- (b) climate change adaptation;
- (c) the sustainable use and protection of water and marine resources;
- (d) the transition to a circular economy;
- (e) pollution prevention and control.

● ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

The Sub-Fund partially invests in sustainable investments, as such Candriam ensures that those investments do not cause significant harm to any environmental and/or social sustainable investment objective by means of its ESG research and analysis of corporate and sovereign issuers.

Based on its proprietary ESG Ratings and Scorings, Candriam's ESG methodology sets clear requirements and minimum thresholds to identify those issuers that qualify as 'sustainable investment' and, in particular, do not cause significant harm to any environmental and/or social sustainable investment objective.

The 'Do not significant harm' principle, in particular, is assessed for corporates through:

- the consideration of "principal adverse impacts";
- the alignment with the OECD Guidelines for Multinational Enterprises and the UNGC to ensure minimum environmental & social safeguards.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human

— → ***How have the indicators for adverse impacts on sustainability factors been taken into account?***

The consideration of adverse impacts is central to Candriam's sustainable investment approach. Principal adverse impacts are taken into account throughout the entire ESG research and analysis process and through a wide range of methods:

1. ESG rating of corporates: the ESG research and screening methodology considers and assesses the principal adverse impact on sustainability from two distinct, but

rights, anti - corruption and anti - bribery matters.

interlinked, angles:

- the company's issuers' business activities and how they impact, either positively or negatively, key sustainable challenges such as climate change and resource depletion;

- the company's interactions with key stakeholders.

2. Negative screening of companies, which includes a norms-based exclusion and an exclusion of companies involved in controversial activities.

3. Engagement activities with companies, through dialogue and voting activities, which contribute to avoiding or reducing the extent of the adverse impacts. The ESG analysis framework and its results feed Candriam's engagement process, and vice versa.

The integration of the principal adverse impacts on sustainability factors is based on the materiality or likely materiality of each indicator for each specific industry / sector to which the company belongs. The materiality is dependent on several factors, such as: type of information, data quality and breadth, applicability, relevance, and geographical coverage.

— → *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

The portfolio's investments are subject to a norms-based controversy analysis that considers the compliance with the international social, human, environmental and anti-corruption standards, as defined by the UNGC and the OECD Guidelines for Multinational Enterprises. The International Labour Organisation and International Bill of Human Rights are part of the many international references integrated into Candriam's norms-based analysis and ESG model.

This analysis aims to exclude companies that have significantly and repeatedly breached any of these principles.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



Does this financial product consider principal adverse impacts on sustainability factors?

X Yes, at Sub-Fund level, as referred to in Annex I of SFDR Delegated Regulation supplementing Regulation (EU) 2019/2088, the principal adverse impacts (PAI) on sustainability factors are considered - as described in the Candriam at Product Level PAI Statement Level II - through one or several of the following means:

- Monitoring: calculation and evaluation of the principal adverse impact indicators including the regular reporting at Sub-Fund level. Some of these indicators may have explicit targets and can be used to measure the attainment of the sustainable investment objective of the product.

- Engagement and Voting: in order to avoid and/or reduce the adverse impact on sustainable objectives, the Sub-Fund also considers the adverse impacts in its interactions with companies, through dialogue and voting. Candriam prioritise its

engagement and voting activities according to an evaluation of the most material and relevant ESG challenges, facing industries and issuers, by considering both the financial and societal / stakeholder impacts. Therefore, the level of engagement with each company within the same product may vary and is subject to Candriam's prioritisation methodology.

- Exclusion: Candriam's negative screening of companies or countries aims to avoid investments in harmful activities or practices and may lead to exclusions linked to companies' or issuers' adverse impact.

The specific principal adverse impacts that are taken into consideration are subject to data availability and may evolve with improving data quality and availability.

Further information regarding the types of principal adverse impact indicators that are taken into account can be found via the links mentioned at the end of this Annex (Document titled "Principal Adverse Impact at Product Level").

No

What investment strategy does this financial product follow?



The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

The objective of the Sub-Fund is to track, before the Sub-Fund fees and expenses, of the performance Solactive Candriam Factors Sustainable Europe Equity Index (the "Benchmark"). The Benchmark and the Sub-Fund are constructed by selecting the best corporate issuers based on Candriam's proprietary ESG analysis. This analysis assesses the exposure of each corporate issuer to key sustainable challenges including, but not limited to, climate change and resources & waste as well as the management of its stakeholders (employees, clients, society, environment, suppliers, investors).

The portfolio of the Sub-Fund is highly diversified and usually contains more than 100 stocks.

The investment strategy is implemented following a well defined investment process and a strict risk framework. Respect of these elements is subject to Candriam risk monitoring.

With regard to the environmental and social sustainability aspects of the investment strategy, Candriam's proprietary ESG analysis, leading to ESG Rating and scoring, as well as the norms based controversy assessment and controversial activities exclusion policy are implemented as they enable to define the investable universe for the Sub-Fund.

In addition, Candriam's ESG analysis, comprising an analysis of the business activities of an issuer and of its interactions with its key stakeholders, is integrated into the financial management of the portfolio to enable the fund manager to identify the risks as well as opportunities that arise from the major challenges of sustainable development.

Candriam as a management company has put in place a monitoring framework as described within the sustainability risk policy. Risk monitoring of the investment strategy of the Sub-Fund aims to ensure that investments are aligned with and take into account the environmental, social and governance indicators and sustainability thresholds as explained above.

● **What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

The binding elements used by the investment strategy are an exclusion policy including a normative filter as well as the exclusion of certain controversial activities as described in Candriam's Level 3 SRI Exclusions Policy which addresses environmental and social issues through a broad set of excluded activities. These activities bear risks for the environment, our health, human rights, and other environmental and social objectives.

Candriam's Level 3 SRI Exclusions Policy applies to investments made by Candriam via long positions in direct lines in corporate and sovereign issuers and single-name derivatives.

This policy covers harmful activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. Exposure to these activities presents important systemic and reputational risks for the investee companies from an economic as well as environmental and social perspective.

As regards the Level 3 SRI Exclusions Policy, Candriam excludes controversial armament, tobacco and thermal coal activities and encourages third parties to do the same. Moreover, Level 3 SRI Exclusions Policy takes into account that climate change is

the pivotal sustainability challenge for the near future, and accordingly emphasizes Candriam Sustainable environmental issues. The aim is to help tackle climate change by excluding activities that do significant harm to the environment. We believe that supporting environmental sustainability in this fashion can also have positive repercussions on social issues as well. The exclusion of such activities is part of a broader framework of greenhouse gas reductions necessary if the average global temperature is not to exceed two degrees Celsius above pre-industrial levels. Candriam has taken steps to mitigate climate-related risk exposure by reducing its exposure to the most greenhouse gas-intensive corporate activities. This includes, but is not limited to, oil & gas, and mining activities. In accordance with this approach, Candriam is a signatory of the Net Zero Asset Managers Initiative.

Candriam's Level 3 SRI Exclusions Policy also targets a number of activities that, with the gradual rise of ESG investing, are no longer considered pertinent by many sustainable and responsible investors due to their potential repercussions on human, societal and animal welfare. These include for example adult content, conventional weapons, alcohol, gambling, GMO, nuclear power, palm oil, and animal testing.

Details on the complete list of activities excluded under Candriam's Level 3 SRI Exclusions Policy and their respective exclusion thresholds or criteria can be found via the links mentioned at the end of this Annex (Document titled "Candriam Exclusion Policy").

Moreover the portfolio is constructed in order to reach or comply with :

- the sustainability indicator targets presented above;
- the defined minimum of investments with Environmental and Social characteristics;
- the defined minimum sustainable investments.

In addition, as highlighted below, the Sub-Fund commits to minimum rate of reduction of the investment universe.

● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

The Sub-Fund is subject to an exclusion policy which includes a normative filter as well as the exclusion of certain controversial activities as well as an ESG filter which reduces the scope of investment for a minimum 20%.

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

● ***What is the policy to assess good governance practices of the investee companies?***

Corporate governance is a key aspect of Candriam's Stakeholder analysis. It allows to assess :

- 1) how a company interacts with and manages its relevant stakeholders; and
- 2) how a company's board fulfils its governance and management duties with respect to disclosure and transparency as well as the consideration of sustainability objectives.

To assess a company's governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance as defined by SFDR, Candriam's ESG analysis comprises, among others, 5 key governance pillars:

1. Strategic direction which assesses the independence, expertise and composition of the board and ensures that the board acts in the best interests of all shareholders and other stakeholders and can act as a counterbalance to management;
2. Audit committee and auditor independence evaluation to avoid conflicts of interests;
3. Transparency on executive remuneration, which enables executives and the remuneration committee to be held accountable by shareholders and helps align interests of both top executives and shareholders and focus on long term performance;
4. Share capital to ensure all shareholders have equal voting rights;
5. Financial conduct and transparency.



Asset allocation describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

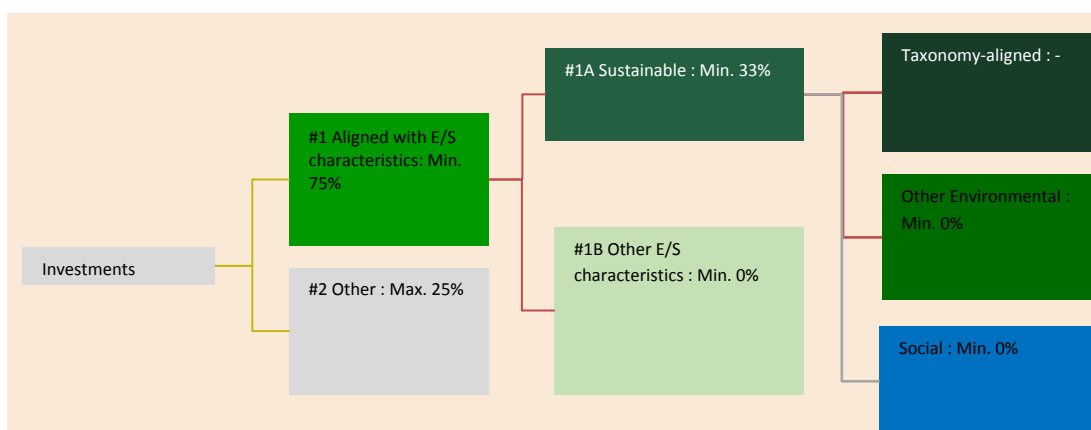
- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

What is the asset allocation planned for this financial product?

The Sub-Fund aims to invest at least 75% of its total net assets in investments with environmental and social characteristics out of which a minimum of 33% will consist of sustainable investments. A maximum of 25% of the Sub-Fund's total net assets can be allocated to other assets as defined below.

Investment with environmental and social characteristics are investments which have been subject to an ESG screening following the Candriam's proprietary ESG analysis. In addition, such investments will need to comply with Candriam's Company-Wide exclusion policy on both controversial activities and normative screening. Investments with E/S characteristics must display good governance practices.

The definition of Sustainable Investments is based on Candriam proprietary ESG Analysis. An issuer that is compliant with our corporate exclusionary screenings is eligible as sustainable investment on basis of its ESG rating.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

Derivatives usage is not directed to attaining the environmental or social characteristics promoted by the Sub-Fund.



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The European Taxonomy Regulation comprises six distinct but intertwined environmental objectives. Those environmental objectives form the core of Candriam's ESG research and analysis of issuers.

However, at present, only a small number of companies globally provide the data required for a rigorous evaluation of their alignment with the Taxonomy.

As a consequence, the Sub-Fund does not commit to any minimum of Taxonomy alignment and therefore, the minimum percentage of alignment has to be considered zero.

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy ?¹**

☐ Yes

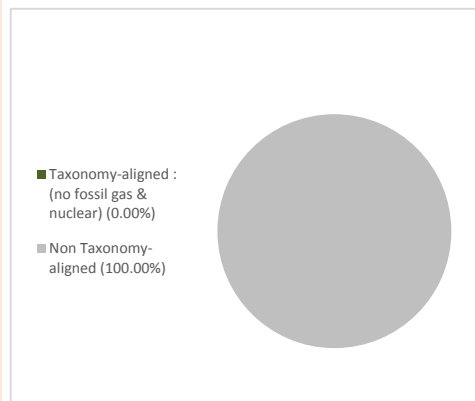
☐ In fossil gas ☐ In nuclear energy

☒ No

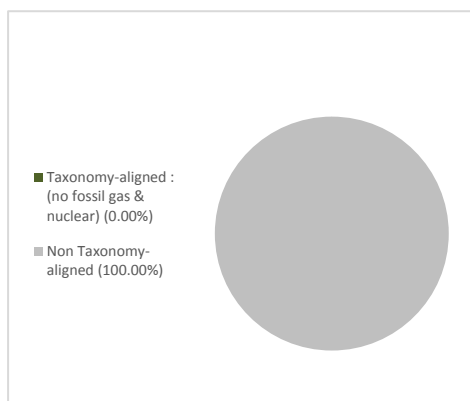
¹ Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objectives - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy-alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy-alignment only in relation to the investments of the financial product other than sovereign bonds.

1. Taxonomy alignment of investments including sovereign bonds*



2. Taxonomy alignment of investments excluding sovereign bonds*



This graph represents max. 100 % of the total investments.

**For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures*

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.



What is the minimum share of investments in transitional and enabling activities?

No minimum share of investments in transitional and/or enabling activities has been fixed. However, Candriam's ESG research and Analysis framework includes an assessment of transitional and/or enabling activities and how they contribute to sustainable objectives.



What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

The Sub-Fund does not commit to any minimum of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy.



are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



What is the minimum share of socially sustainable investments?

There is no prioritization of environmental or social objectives and therefore the strategy does not target or commit to any specific minimum share of sustainable investments with a social objective.



What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

Investments included under "Other investment" can be present in the Sub-Fund for a maximum of 25% of the total net assets.

These investments can be:

- Cash: Cash at sight, reverse repo needed to manage the liquidity of the Sub-Fund following subscriptions/redemptions;
- Issuers with E/S characteristics at the moment of the investment and are not fully aligned anymore with the Candriam investment with E/S criteria. These investments are planned to be sold;
- Other investments (including single name derivatives) that can be purchased for diversification purposes and that might not be subject to an ESG screening or for which ESG data is not available;
- Non single name derivatives can be used for efficient portfolio management and/or for hedging purposes and/or temporarily following subscriptions/redemptions.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

No specific index is designated as a reference benchmark to assess the alignment with E/S Characteristics.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

N/A

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

N/A

- ***How does the designated index differ from a relevant broad market index?***

N/A

- ***Where can the methodology used for the calculation of the designated index be found?***

N/A



Where can I find more product specific information online?

More product-specific information can be found on :

<https://www.candriam.com/en/private/sfdr/>

<https://www.candriam.com/en/professional/sfdr/>

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.