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Derivatives

COVID-19
fears generate
volatility and
volume spikes

SECURITIES FINANCE

THE BENEFICIAL
OWNERS GUIDE 2020

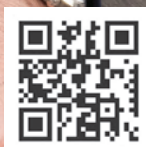


Custody

The effect of asset
management
mega-deals

EQUIPPED TO DEAL WITH ECONOMIC SHOCKS

Candriam chief Naïm Abou-Jaoudé
reflects on an industry in flux





Under **Naïm Abou-Jaoudé's** leadership, Candriam has diversified its business by product, client type and geography, and invested in technology to ensure it delivers excellent customer services.

Candriam chief Abou-Jaoudé reflects on a changing business

By **Luke Jeffs**

Naïm Abou-Jaoudé, has been the chief executive officer of Candriam since 2007. His first major undertaking was to guide the Luxembourg-based multi-strategy manager through the mayhem of the 2008 financial crisis and now the firm and its peers face another massive challenge as the coronavirus pandemic casts a shadow over the equities markets.

Yet Abou-Jaoudé believes Candriam is better equipped to deal with economic shocks today than it was when he took the helm.

Under Abou-Jaoudé's leadership, Candriam has diversified its business by product, client type and geography, and invested in technology to ensure it delivers excellent customer services.

Also important is the 2014 sale of Candriam to New York Life Investments, the \$500+ billion multi-boutique manager owned by New York Life Insurance Company, the Fortune 500 firm that ranks among the world's top life insurers. With the global equity markets off a quarter in recent weeks and the economic outlook weak, now is a good time to be part of a mutual company.

The New York Life Investments deal was also remarkable because it was the catalyst for the launch of the Candriam brand, underlining the firm formerly known as Dexia Asset Management's long-standing commitment to sustainable investing (Candriam stands for Conviction AND Responsibility In Asset Management).

The COVID-19 pandemic, like the 2008 crisis, has highlighted the importance of responsible investing, namely

investing for the long-term in sustainable companies that take responsibility for the environmental and social effects of their actions.

Given the coronavirus pandemic is developing rapidly and the situation is changing on an hourly basis, Abou-Jaoudé was concerned by the humanitarian catastrophe and understandably circumspect on the short-to-medium term impact of the outbreak.

Abou-Jaoudé told Global Investor: "In respect to the pandemic, we are carefully monitoring what we call the "three Ds": the depth of the crisis; the diffusion of the virus; and the duration. These are uncertain and will be key in determining the global impact of the epidemic.

"It is difficult to predict how things will evolve. Hopefully over the coming months, things will stabilise a little bit if the crisis is well managed. We have seen that the confinement measures in China are beginning to work, which tells us that if we manage the virus effectively, we can start to contain it. We will have to be very cautious for a period but, after that, I think things will stabilise. The shock to growth will be significant: in the Euro and the United States, it could easily subtract five GDP points."

He added: "But, overall, things will recover and, looking towards the end of the year, I think the markets will improve from where we are today at minus 30%. I think the central banks are intervening in the right direction by injecting lots of cash, reducing interest rates and opening new facilities, while fiscal support from governments has been massive."

Abou-Jaoudé said recent volatility reflects relatively thin liquidity in certain

asset classes, which is, in part, linked to the withdrawal of investment banks from market-making.

The sudden economic shock caused by the COVID-19 pandemic has also forced people to think again about the sustainability of their investments and their vulnerability to unforeseen risks.

Abou-Jaoudé said: "What we are living through is another clear signal among many others, that the type of growth we have been pursuing over the last few decades is not sustainable over the long term. Continuing in the same direction will only exacerbate the potential for other extreme events.

"COVID-19 has shown how interdependent countries are. It has had such a profound effect on our economies and societies, that in the future we will look back at the "pre" and "post" pandemic years."

He added: "Going forward, the key for us as economic agents, will be to

Snapshot of Candriam (as of 31/12/2019)

Established
1998

AUM
€130bn

Number of employees
563

Commercial coverage
Servicing clients in over 20 countries: (EMEA - Americas - Asia-Pacific)

Subsidiary of
New York Life Investment Management Global Holdings S.à r.l.

Source: Candriam



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regenerate completely sustainable and inclusive growth. Sustainability already exists as a megatrend and if you look at the relative performance of ESG investment strategies, it's underpinned by strong performance. We are already integrating more and more extra-financial aspects in the way we manage our clients' assets, but what we need now is a unified, global framework that enables us to invest in directly tackling issues, like investments in climate change, or providing solutions to future challenges, such as the provision of healthcare for our ageing population."

While the name Candriam reflects the firm's commitment to responsibility in asset management, the firm also has a strong track record in ESG.

The firm launched its first Sustainable & Responsible Investing fund in 1996 and has been an ESG market-leader since then.

The CEO said: "We have a range of products covering 22 different processes in ESG, so that's equity, fixed income, credit and high yield, emerging equity, emerging bonds, asset allocation, and thematic ESG. We have our own ESG team of 22 people internally that was created in 2003 and some of them are still here including the head of the team and the head of corporate responsibility."

Abou-Jaoudé was from 1996 the co-head of alternative management at Alfi Gestion, which was acquired by UBS Asset Management in 1998, before

that business was bought by Dexia Asset Management in 1999. It may have changed its name more than once but Abou-Jaoudé has been with the firm since the start of its ESG activities.

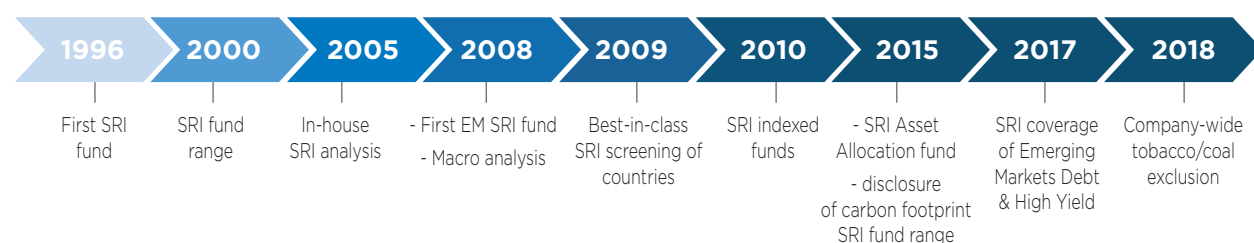
He said: "The visionary part was not to be the first asset manager analysing and integrating ESG, but to persevere in investing and developing the expertise over time. I remember going out in 2005 talking about ESG to clients and it was like shouting in the desert. There was a lot of confusion and we had to explain the philosophy around it. 2008 was the turning point. The financial crisis changed behaviours because it impacted everything in the real economy so that was the wake-up call for the industry."

ESG has in recent years become the fastest growing segment of investment management as investors have shifted their preferences to reflect increasing concerns about climate change and social inequality.

The Candriam chief said: "Companies are becoming more sensitive. Today 95% are publishing their CSR (Corporate Social Responsibility) reports for example, whereas 20 years ago it was only 20%. Today everyone is willing to move but it is not sufficient. We need to act collectively, it is not enough that one firm does it on its own."

Abou-Jaoudé said: "Pension funds and big institutional clients have been asking for responsible investments for the last ten years and they are putting pressure on the asset management industry and all stakeholders to manage their assets with climate constraints and

Candriam Timeline



Candriam - Leading the way in SRI for nearly two decades

Overall, 33% of our total assets under management are invested in SRI strategies (as of Dec 2019).

Source: Candriam

to limit CO2 emissions so everything is aligned to move forward. But are we moving fast enough? I think not. We need to accelerate more and more.”

He said the industry must work harder on various fronts including CO2 emissions which are still way above where they need to be if the world is going to achieve in 2030 the emissions targets agreed in the December 2015 COP-21 meeting.

For Abou-Jaoudé and his management team, it is not enough however to invest in responsible firms.

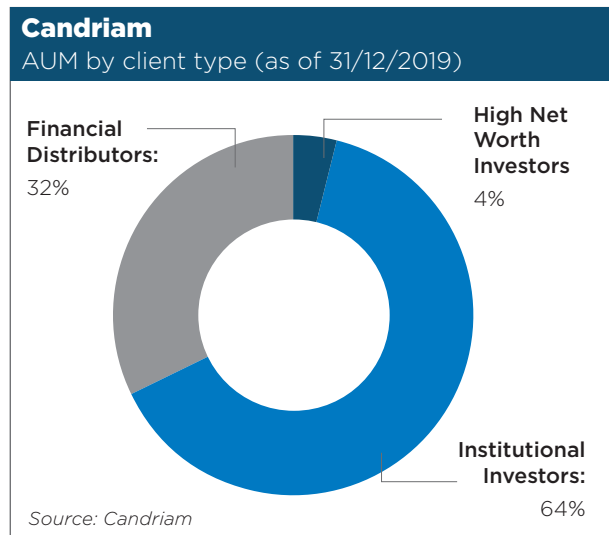
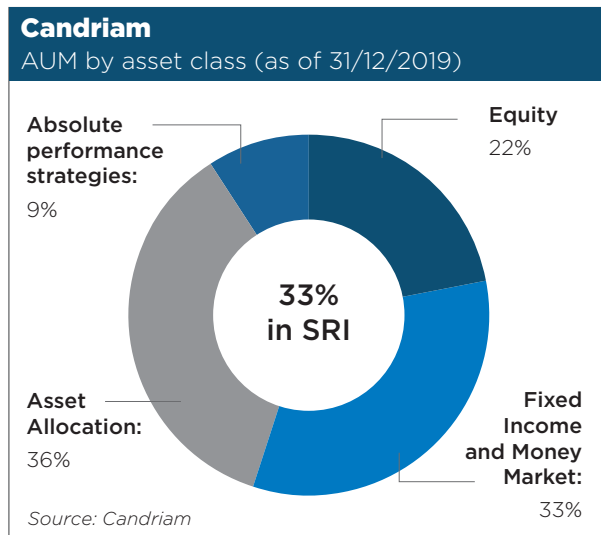
He said: “We are a responsible investor and we are also a responsible company, and you can’t do one without the other. We practice what we preach. In our value chain, we apply the responsible approach as a company and as an investor for the client.”

The chief executive is proud of his firm’s ESG performance. Candriam became operationally carbon neutral a year ago despite its significant growth since 2014.

He said: “While we have doubled assets over the past six years, we have in that time been able to reduce our emissions. That was our first objective. We did this by digital working, video-conferencing and cutting down on travel. Our second was to offset our remaining CO2 emissions through reforestation and renewable energy projects.”



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The firm is also putting its money where its mouth is.

Candriam has funded an e-Learning academy that has so far awarded 3,500 ESG certificates to financial advisers, and a non-profit institute that supports education and social inclusion.

The manager has also pledged to invest 10% of its own management fees from its new thematic products in ESG-responsible ventures.

"There are two examples: we have created a fund on oncology which raised €700m in 12 months, it has showed good financial performance but behind this we are taking 10% of our management fees on the assets and re-investing these in oncology research. This represents on average about €300-400,000 for research every year.

"We also launched the Candriam Climate Action Fund on World Environment Day on June 5, 2019. The objective

of this fund is to invest in businesses that are active in Climate Change mitigation and adaptation. In doing so, the emissions of CO₂ of the portfolio is typically reduced by investing in alternative energy sources and new technology. But, beyond that, we want to go to zero emissions, so we take up to 10% of the fees of the fund and re-invest those in reforestation and alternative energy to curb the fund's CO₂ emissions to zero."

Candriam also works closely with the firms in which it invests to influence their behaviour.

Abou-Jaoudé continued: "We are also active shareholders and engage with companies on to influence their strategic decisions and ensure that they move in the right direction."

"We do that on our own but also with other companies, taking part in more than 50 collective engagement initiatives. For example, we started interacting with Shell in 2015 on greenhouse gas emissions, then in 2018 we joined the Climate Action 100+ initiative, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change."

Candriam imposed in 2018 an exclusion on firms that derive revenue from the coal industry for example.

For Abou-Jaoudé, a key objective is to channel financial assets to the real economy to invest in infrastructure projects, renewable energy and social projects.

He said: "To achieve the Sustainable Development Goals, you need roughly \$30 trillion between now and 2030. That is a big amount but it is achievable."

The Candriam chief believes there is an inherent conflict between the expectations placed on listed companies and realising sustainable investment goals.

"There are many challenges within that but one of the main ones is to start thinking long-term rather than short-term. We all talk about long-term goals, but listed companies must communicate every quarter on their results. So when challenged, CEOs will always delay investment in order to manage a short-term view.

"But it's not only the CEOs' responsibility, but our collective responsibility as an industry. We are all talking a lot about long-term investing but we still expect a lot of accountability each quarter. This has to be changed in terms of regulation or evaluation of the assets."

Abou-Jaoudé believes regulators and tax authorities can do more to expedite the movement of financial assets into responsible investment programmes.

He said: "Regulators could introduce a fiscal or regulatory advantage to help move assets to the sustainable real economy. When we talk about capital requirements for investments by insurance companies for example, they need to put about 45% in front of their equity but if it were an investment in renewable energy or a social purpose for example, we could reduce the capital requirement by half."

The chief executive added: "If it's a long-term investment, the volatility will diminish so if you require them to hold these assets for a long time, we can reduce the capital requirement and channel these investments into long-term projects."

Like many of his peers, Abou-Jaoudé also thinks that the standardisation of terminology would be beneficial: "There is some progress with the European advances in taxonomy. It is a good step but the taxonomy only applies in Europe so there are still different interpretations internationally. The UK is moving fast, as is the US, but I think we need to have some harmonisation which would help the channelling of financial assets to more sustainable projects."

Candriam's celebrated ESG funds are only part of the story however. Abou-Jaoudé's tenure has been characterised by efforts to diversify the firm's interests across different products, geographies and types of clients.

He said: "If I start with the client type, 60% of our clients are institutional and 40% are third party distributors. We cover all of Europe, which accounts for roughly 90% of our assets while the remaining 10% is new, and managed in

Forest Green Rovers:

Candriam signed in May 2019 a sponsorship deal with Forest Green Rovers, the English Football League club based in Gloucestershire.

The partnership with FGR, which has signed up to support Climate Neutral Now, a United Nations Framework Convention on Climate Change initiative, reflects Candriam's commitment to sustainability.

Speaking to Global Investor, Abou-Jaoudé said: "It is the greenest football team in the world. They recycle the water, they have solar panels everywhere, they play on an organic pitch and even the food is vegan."

The Candriam chief executive added: "It is a good example of a football team that is behaving in a responsible way. Hopefully we can give an example to the younger generation based on the way they are behaving. Football is important because there are so many followers. If they can give a good example, they can influence millions of people to behave like Forest Green Rovers."

the Middle East, Asia including South Korea, Japan and Australia, and the US, which draws on the strength of our partnership with our shareholders where they allowed us to have exposure in Asia and the US.”

Candriam is just one of the firms owned and operated by New York Life Investments. The subsidiaries can lean on the parent, which is advantageous when it comes to moving into new territories, such as Asia.

Abou-Jaoudé, who is also chair of New York Life Investments International, said: “Candriam is one of the boutiques and in the past two years we have been able to raise €1.5 billion of new assets, relying on the sales force we have in South Korea and Japan.”

When New York Life Investments bought Candriam in early 2014, only 1% of its business came from outside of Europe. At that time, the management pledged that by the end of 2021, the international book would represent 10% of its assets. Candriam’s international business today equals about 8.5% of assets, Abou-Jaoudé told Global Investor.

The CEO, a former fund manager and chief investment officer, said the firm has also made strides in diversifying its strategies.

“My experience in the market is that you have to be diversified in terms of product and the types of solution you can offer your clients because it helps you to ride different types of markets and cope with different levels of volatility.”

As well as its ESG funds, Candriam offers thematic equities, credit and high yield, emerging market equities and debt, asset allocation solutions for insurance firms and pension funds, and alternative funds based on market neutral, long-short or long-short credit strategies.

Abou-Jaoudé added: “We have also been focused on the development of our IT, digital services, data, artificial intelligence, reporting and performance attribution for the past six years. We have been growing but also investing a lot.”

He concluded: “I believe that if you



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Culture is important to Abou-Jaoudé, who said the principles that make-up the name Candriam were chosen in 2014 by its staff.

The CEO said: “We don’t have a star system, instead we rely on teams and this is the strong culture that has allowed us to manage different types of headwinds. Thanks to this, we have a long tenure in the team. On average, the teams have been working together for nine years and the management for 14 years, it’s a stable team.”

He added: “I know a lot of the industry are talking about these corporate responsibility principles now but we have been saying for years – success is not only about optimising profit for shareholders, it’s about acting as a re-

sponsible company in the best interest of all your stakeholders. If your employees are happy and you are an employer of choice, you can attract the best talent and if clients are happy, they will be faithful and increase their assets over time.

Abou-Jaoudé is proud of the fact Candriam assets under management have doubled in the past six years to €130bn from half that when New York Life Investments bought the firm in early 2014.

The chief executive said: “By developing long-term partnerships with our clients, we have been able to cope with different types of headwinds and volatility. We are one of the best European success stories of the past six years. We have grown 15% year-on-year and in terms of cross-selling active funds, we are ranked in the top 20 every year for the last six years and number six over the period.”

Abou-Jaoudé concluded: “We feel we have a duty as a company to serve our clients but to invest for the future generations so they have a world in which they can live, thrive and grow decently.” ■