Seeking Environmental and Social Innovation to Get Higher Performance in Equities

SPAINSIF Breakfast Meeting Madrid

March 2018

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Global CIO, Mirova

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Mirova at a Glance

mirova
Responsible Investing

Mirova at a glance

Key figures and milestones in the development of Mirova

5 centres of excellence and expertise

74 multidisciplinary experts

4 offices[1]

€9 / $11 Bn assets under management

2012 – Creation of Mirova, part of Natixis Asset Management

2014 – Mirova becomes a subsidiary

2016 – Launch of Mirova US[2]

2017 – Acquisition of Althelia and creation of Mirova-Althélia[3] based in London and Paris

Source: Mirova as at 30 December 2017. These figures do not include data pertaining to Mirova-Althelia
1- 3 management centres and 1 administrative centre
2- Mirova is a subsidiary of Natixis Asset Management, S.A. (Natixis AM) based in Paris. Mirova is operated in the USA through Natixis Asset Management U.S., LLC (Natixis AM U.S.), an investment adviser based in the US with AUM of $561m assets under management as of December 2017. The majority shareholder of Natixis AM U.S. is Natixis AM and the minority shareholder is Mirova. Data relating to our teams only includes permanent employees and the personnel of Mirova U.S. housed by Natixis AM U.S. (data accurate as at 1 July 2017). Mirova and Natixis AM U.S. have signed a ‘participating affiliate’ agreement according to which Natixis AM U.S. can take advantage of the asset management expertise of Mirova when it provides investment advice.
3- Mirova-Althelia: Public Limited Company under English law – Number of the company in the register: 07740692 - Headquarters: 12 Gough Square, London EC4A 3DW

Our history is a history of innovation

Pioneers in sustainable finance strategies

1984
Social impact - fixed income

1994
Jobs creation - equity

2002
Renewable energies - infrastructure

2005
PPP - infrastructure

2006
Social impact - saving schemes

2007
Environment – ESG thematic approach

2013
Natural capital (Climate) - Althelia

2015
- Green Bonds
- Carbon footprint analysis methodology

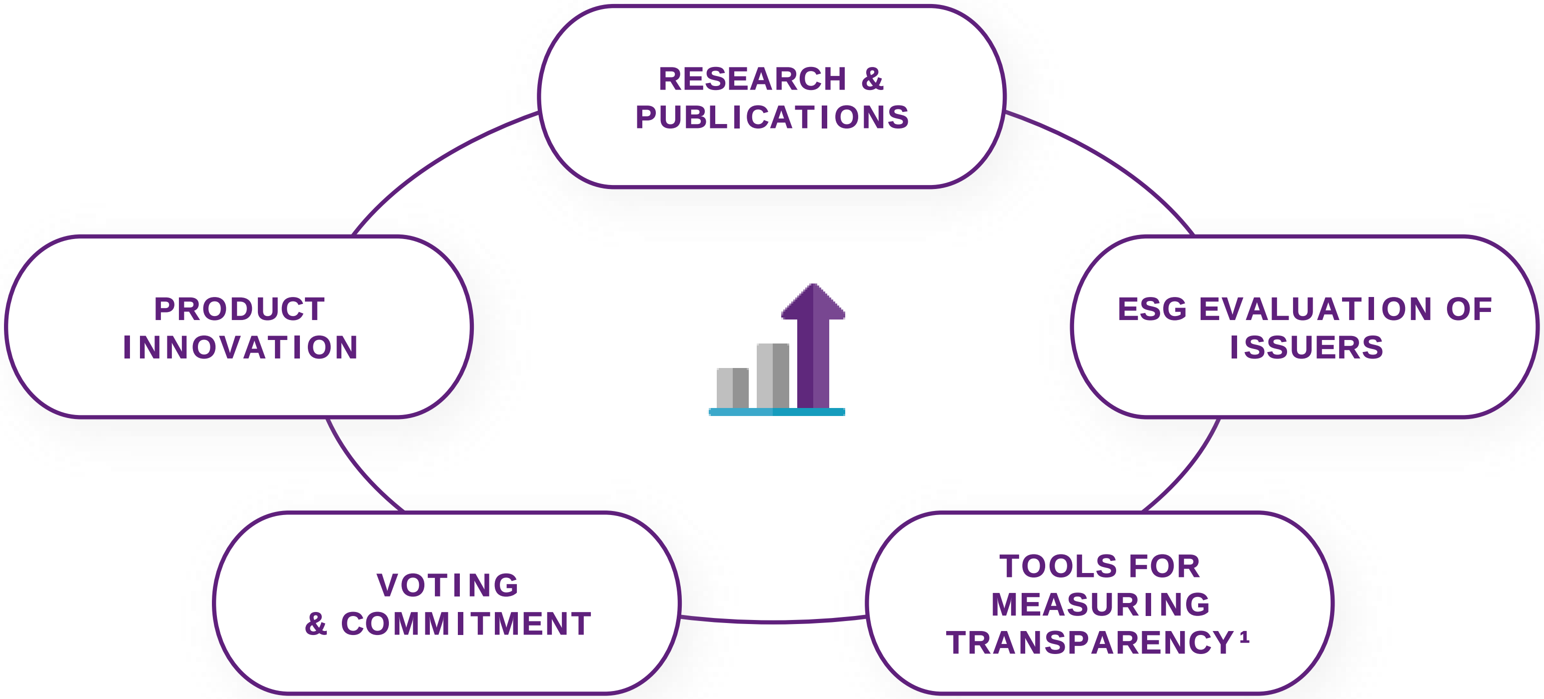
2016
Small PPP - infrastructure

2017
- Carbon neutral
- Natural capital (land degradation)

Our aims and objectives

Create value for our clients

Our aim is to create not only financial value but overall value.
We put this into practice with the following actions:



1- Reports, measuring carbon impact etc.

2

Balancing Opportunities and Risks

mirova
Responsible Investing

The major challenges to come – our view

Four long-term transitions are transforming the world

DEMOGRAPHICS

Ageing population

17%

Of the world's population >65 by 2050 vs. 8.5% currently

Urbanization

2/3

of the world's population living in cities by 2050 vs. 1/2 today

TECHNOLOGY

Digitalization

+40%

Average growth per year in data

Biotechnology

$200bn

biopharmaceutical expenditure in 2016

ENVIRONMENT

Climate

-50%

CO2 emissions by 2050 in order to limit temperature increases to 2°C

Land degradation

-12 m

hectares per year due to poor land management

GOVERNANCE

Public debt

$52,000bn

Public debt at the end of 2015, i.e. 71% of world GDP vs. 57% GDP in 2000

Corporate responsibility

>2000

"B-Corporations" in the United States

Source: 2016, UN open data, World Bank, IPCC, OECD, Prophil

** B-Corporations is a label attributed by an American NGO - B Lab, focused on environmental, social and governance performance.*

The UN Sustainable Development Goals (SDGs)

Agenda 2030: the SDGs as a reference

In September 2015, the SDGs were adopted unanimously by 193 heads of state and other leaders at a summit at the UN Headquarters in New York

"Financing the SDGs requires not only money but also new types of research and investment tools which are fully dedicated to sustainability"

Philippe Zaouati, CEO of Mirova, Implementing and financing the UN SDGs, June 2016

Our investment philosophy

From sustainable development to responsible investment

Investing in projects and companies providing sustainable solutions to the challenges we face as a society also means we aim to:

CREATE SHORT-TERM AND LONG-TERM VALUE

Short-term:

Long-term:

* Making the most of new investment opportunities
* Financing the champions of tomorrow
* Preserving natural and human capital
* Avoiding the risks linked to sustainable development challenges
* Achieving better overall health throughout the economy

MANAGING THE RISKS AND SEIZING THE OPPORTUNITIES

CREATING ENVIRONMENTAL AND SOCIAL VALUE
- Business model adapted to the world of tomorrow

SEIZING OPPORTUNITIES
- Cost reduction
- Spreading and promoting growth

RISK MANAGEMENT
- Risk to reputation and image
- Risk of financial penalties
- Risk of discontinuity of operations

Source: Mirova

Environmental & Social Assessment

Basis for analysis

Risk / Opportunity Approach	Targeted Issues	Life Cycle Analysis	Qualitative and Absolute Assessment
Identify solution providers and good practices for risk management	Focus on issues specific to each asset studied	Analyse environmental and social issues from material extraction to the product's end-of-life	Produce a qualitative opinion without any pre-defined distribution

Sustainability Opinion Scale

Eligible for Mirova's investments (Neutral, Positive, Committed)

- **Negative**: Strongly opposes achievement of the Sustainable Development Goals
- **Risk**: Hinders achievement of the Sustainable Development Goals
- **Neutral**: In line with some of the Sustainable Development Goals, but impacts are low or unquantified
- **Positive**: Contributes positively to achieving the Sustainable Development Goals
- **Committed**: Contributes very favorably to achieving the Sustainable Development Goals

Engage

Our strategy to promote our vision

OBJECTIVES	1. Improve company practices (product sustainability impact & ESG process)		2. Improve and develop the RI market
FINAL TARGET	COMPANIES		RI MARKET REGULATORS
WAYS TO ENGAGE	**Individual engagement** on-going engagement + exercise of voting rights	**Collaborative engagement** with companies, industries and at policy level	**Advocacy** towards public policy and RI market standards
WHO DO WE ENGAGE WITH?	• Companies at individual level	• Several companies in a same sector • Sector / Professional associations • Regulators • Relevant stakeholders (NGOs, etc.)	• Responsible Investment sector / professional associations • Public policy makers / public regulators • Relevant stakeholders (International Organizations, NGOs, etc.)
WHO IS ENGAGING?			or / and

Mirova

Other investors (institutional investors, asset managers)

Source: Mirova 2016

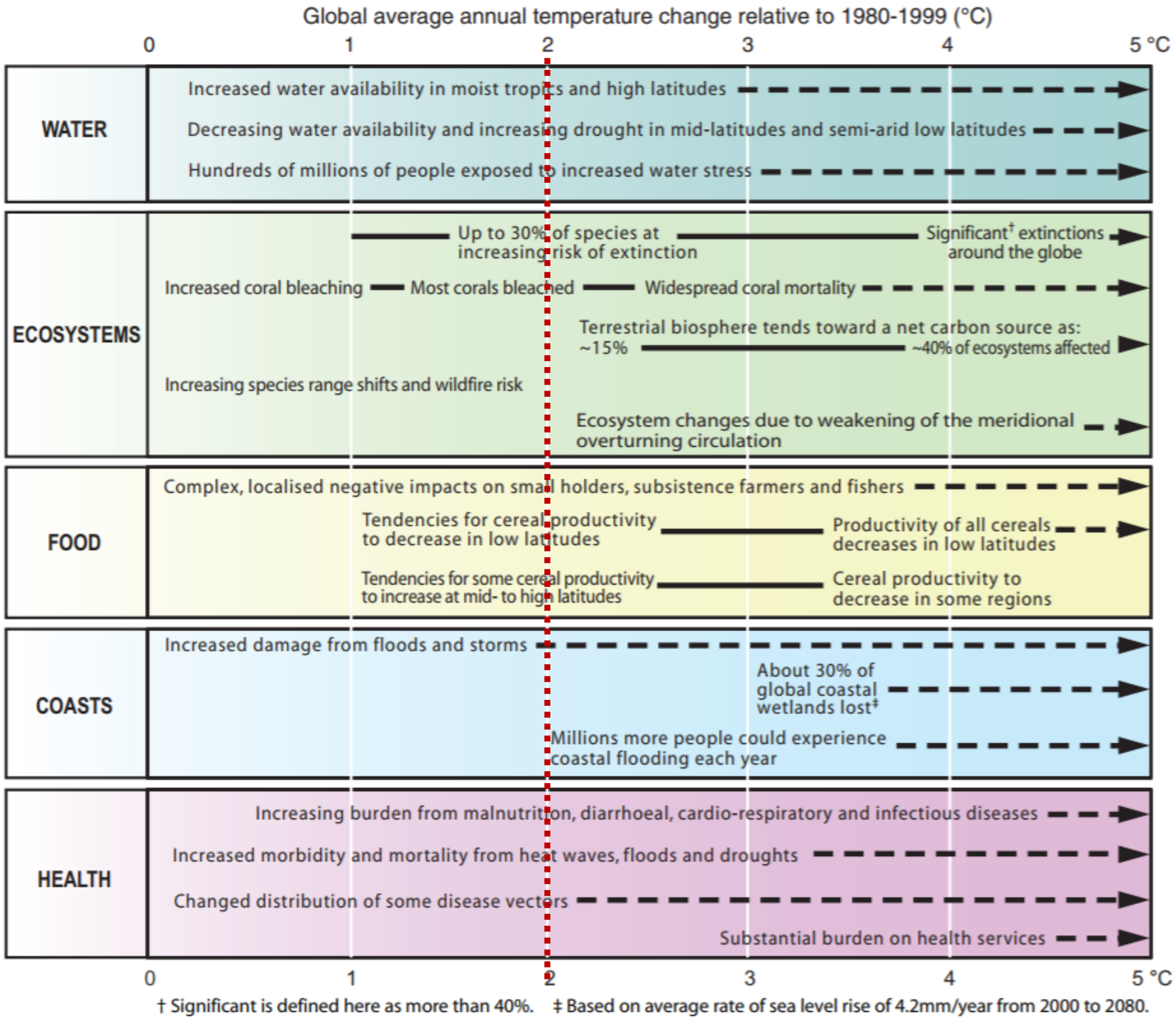
Climate stability in a recuring engagement theme

3

Low Carbon Economy & Carbon Footprinting

Expected impacts of temperature increase

2°C Scenario, the international consensus restated at COP21

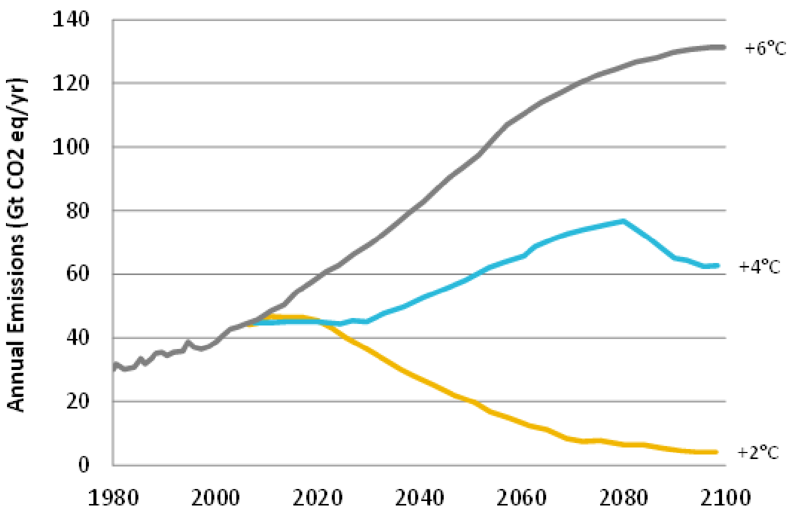


Source: Mirova / IPCC

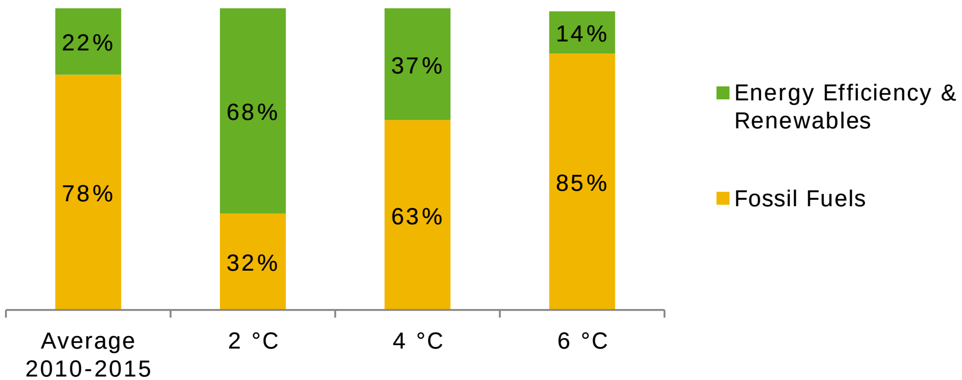
From scenarios to investments

Investing in solutions as much as decreasing exposure to carbon intensive assets

Emissions Scenarios



Impact of scenarios on energy-related investments



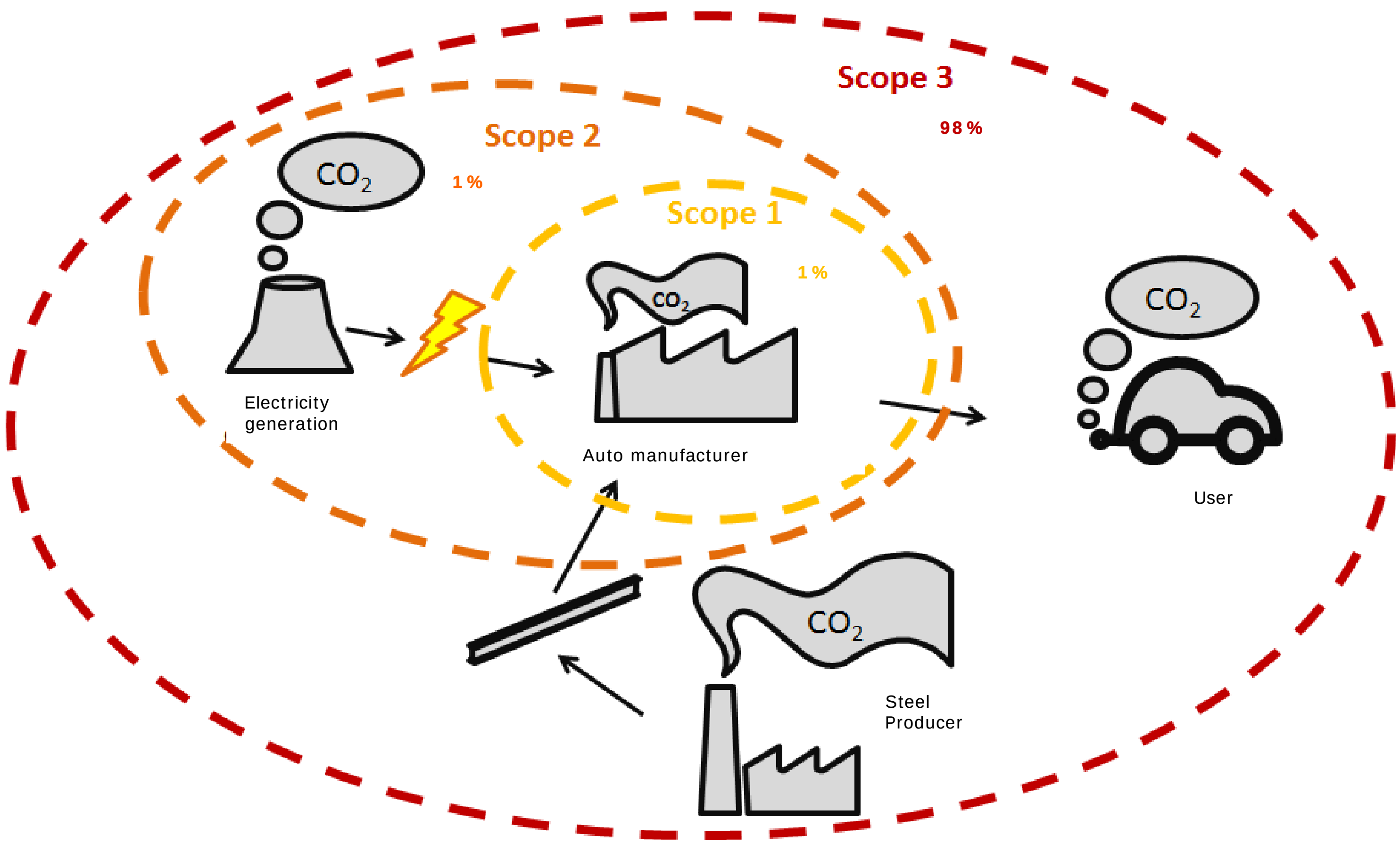
Source: Mirova / IPCC / IEA

- Carbon mitigation policies can impact the economy
  - Directly, through carbon pricing
  - Indirectly, through standards or regulations
- All carbon intensive sectors could be impacted
  - Energy extractors
  - Equipment manufactures
  - Direct users: fossil fuels utilities, heavy industries, building owners, transport
  - Indirect users: agriculture supply chain
- New investment opportunities in clean technologies might bring additional opportunities
- Even if less impacted, non-energy related assets are not immune to systemic carbon risks

Carbon footprint

Key concepts

Example of a car maker's carbon footprint



Source: Mirova

Inadequate Carbon Methodologies

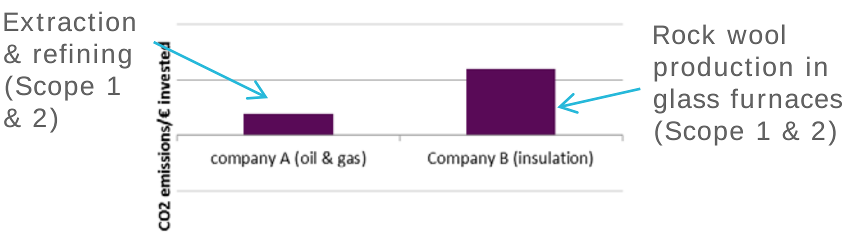
Direct emissions only might lead to inadequate message

Most current carbon methodologies focus only on direct emissions (Scope 1&2)

Failure to take into account the products emissions

ex : scope 1 & 2 of extraction & refining activities of company A is lower than the production used to insulate buildings of company B. Oil combustion is not taken into account in company A emissions.

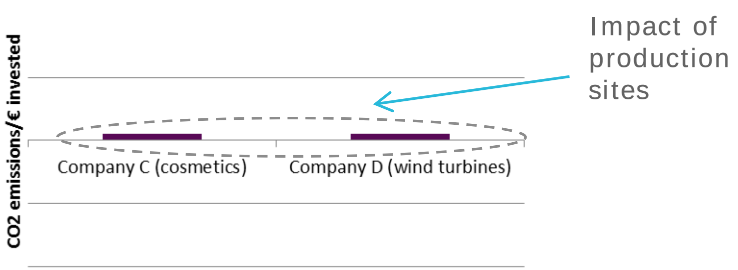
→ Important to take into account the impact of products (Scope 3)



Failure to take into account avoided emissions

ex : Scope 1&2 emissions of company C (cosmetics) equivalent to Company D (wind turbines) emissions. The emissions avoided by wind turbines do not appear in Scope 1&2 emissions.

→ Important to measure avoided emissions relative to a baseline scenario



■ Scope 1/2 ■ Scope 3 ■ Avoided emissions

Source: Mirova, Carbone 4, as of end September 2015

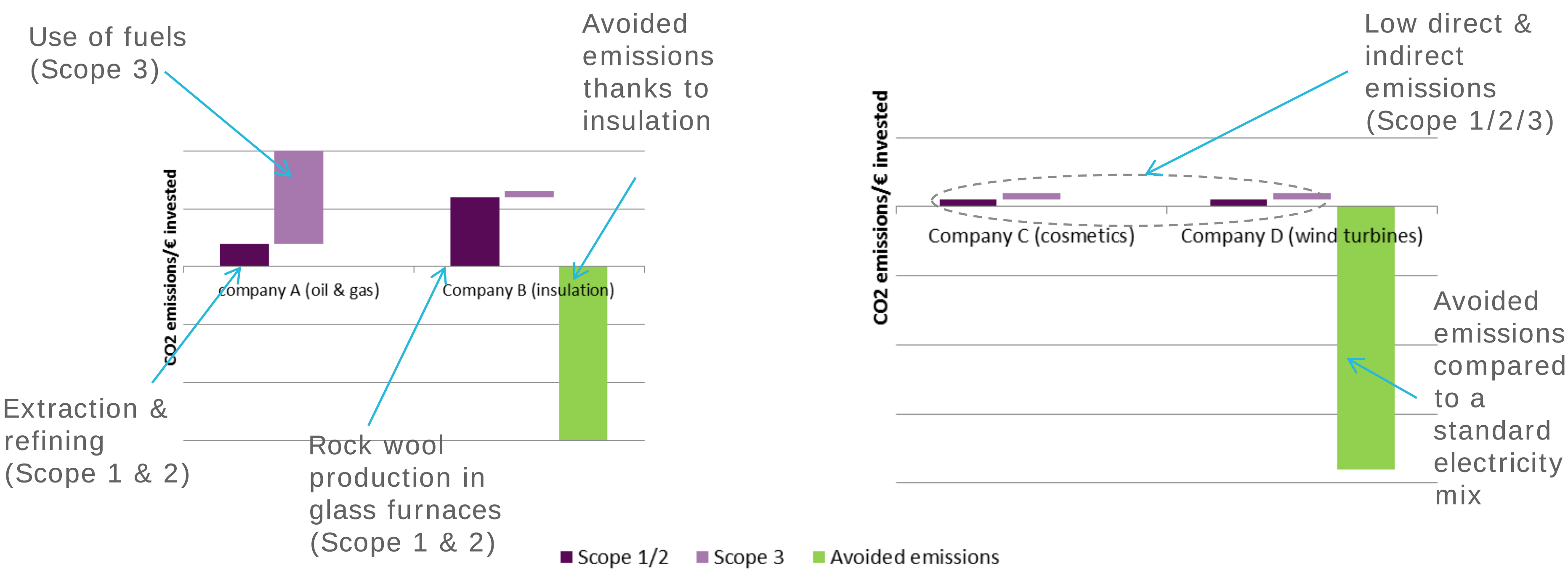
"Carbon Impact Analysis"

Methodology

Creation of a new methodology in partnership with Carbone 4

Life cycle approach

Avoided emissions taken into account

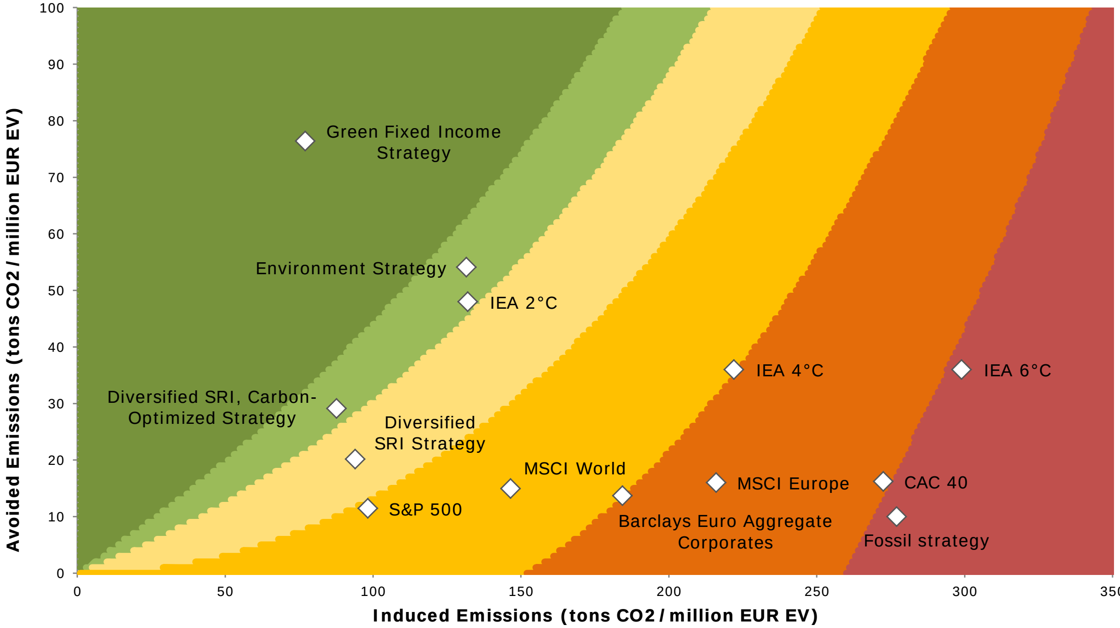


→ Scope 1, 2 and 3 taken into account; avoided emissions also taken into account

Source: Mirova, Carbone 4, as of end September 2015. This does not represent actual companies, but rather is included to illustrate the carbon assessment process. Carbone4: http://www.carbone4.com

Assessing Climate Impact

From emissions to scenarios



Environmental Strategy: equity, with a focus on companies contributing positively to environmental and climate-related sustainability objectives.

Fossil Strategy: equity, with a focus on companies involved along all steps of the fossil fuel value chain

Diversified SRI Strategy: equity, seeking to address a wide set of long-term sustainability trends (i.e. climate change, aging population, growing middle class, and more).

Diversified SRI, Carbon-Conscious Strategy: equity, seeking to address a wide set of long-term sustainability trends, with company choice adjusted for improved carbon performance.

Green Fixed Income Strategy: fixed income, containing both corporate and green bonds.

	Env. Strategy	Diversified SRI Strategy	Diversified SRI, Carbon-Optimized Strategy
	1.5°C	**2.7°C**	**2.2°C**
Induced (tCO2/m€)	131.5	94.0	87.6
Avoided (tCO2/m€)	54.1	20.2	29.1

	S&P 500	MSCI World	MSCI Europe
	3.7°C	**4.0°C**	**4.7°C**
Induced (tCO2/m€)	98.3	146.5	216.0
Avoided (tCO2/m€)	-11.4	-14.9	-16.0

Source: Mirova / Carbone4

Impact on Investment Strategies

Our feedback

Active strategies

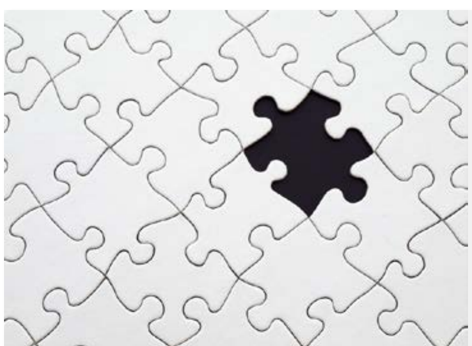
Carbon data are used to improve active Responsible Investment strategies with significant tracking error

e.g. All Mirova's strategies foster investment in solutions: green stocks, Green Bonds, green infrastructures + no investment in oil / coal

Passive strategies

Carbon data are used to create passive strategies with limited tracking error

→ A 2°C scenario usually implies a tracking error >1 (depending on the index)



Integration / Engagement

Carbon data can be used to challenge traditional investment strategies

e.g. Natixis AM divested from major coal assets + progressive integration of carbon data on specific mandates

Climate stability can also be an area of engagement

Appendix

Main data providers

Our data ecosystem

Sustainability data

Sustainability analysis, ESG indicators, controversies

oekom

Cluster munitions and anti personal mines

ISS-Ethix

Carbon footprint

carbone 4

Sovereign

Beyond Ratings

Proxy voting

ISS ProxyExchange

News feeds

SRI BY NATIXIS
SRI DAILY WATCH

FACTIVA

Financial data

FACTSET

Bloomberg Markets

Brokers

SRI BY NATIXIS

EXANE

CREDIT SUISSE

ODDO

SOCIETE GENERALE

Kepler Cheuvreux

Morgan Stanley

Deutsche Bank

Goldman Sachs

Bank of America Merrill Lynch

BARCLAYS

J.P.Morgan

Source: Mirova 2017

Opportunities

Seeking environmental and social innovation

Energy

- Renewable energy
- Low-carbon energy
- Energy efficiency
- Access to energy

Consumption

- Sustainably certified products
- Health and nutrition
- Inclusive business models

Mobility

- Low-carbon mobility (e.g. electric vehicles, hydrogen, engine performance)
- Harmless mobility (e.g. low local pollution, noise reduction, active safety)
- Access to sustainable mobility

Health

- Access to medicine
- Unmet medical needs
- Research with social value-added (e.g. personalised medicine)

Buildings & Cities

- Energy efficient buildings and equipment
- Decarbonization of buildings energy consumption
- Decent living conditions
- Environmental and social contribution of infrastructures

ICT

- Information & Communication Technology (ICT) as a solution (e.g. access to health, support to renewables)
- Bridging the digital divide
- Data security

Resources

- Circular economy
- Sustainable chemistry
- Food security
- Efficient waste and water systems

Finance

- Sustainability-oriented financial products
- Access to financial services

Source: Mirova 2017

Risks

Re-internalization of negative social and environmental externalities

Energy

- Environmental impacts of energy production
- Human rights of local communities
- Nuclear safety
- Labour rights, health, and safety of employees

Consumption

- Food safety and quality
- Sustainable agriculture
- Labour rights in the supply chain
- Responsible marketing

Mobility

- Eco-design and recycling
- Vehicles' environmental impact
- Environmental impacts of production
- Safety of users and communities

Health

- Product safety
- Responsible marketing
- Ethical R&D* practices

Buildings & Cities

- Construction workers' health and safety
- Construction waste and local pollution
- Infrastructure's impact on local communities
- Buildings' environmental management

ICT

- Labour rights in the supply chain
- Protection of freedoms
- Content responsibility
- Environmental impact of IT devices

Resources

- Labour rights, health and safety
- Chemical products' safety
- Human rights of local communities
- Water management
- Environmental impact of operations

Finance

- Responsible sales practices
- Mitigating sustainability impacts of financial products

Human resources and business ethics are key issues for all sectors

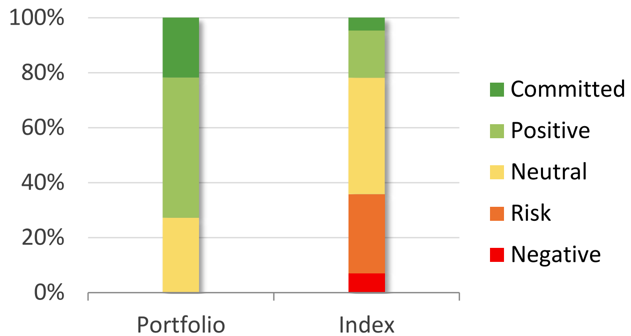
Source: Mirova 2017
**Research & Development*

Outcome

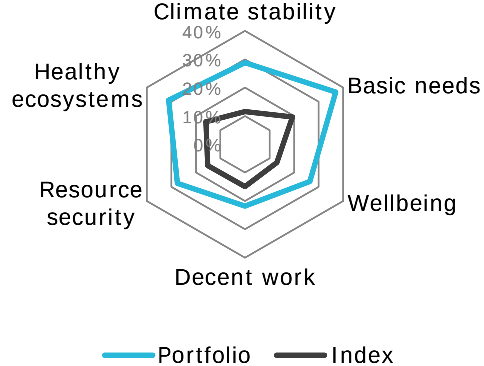
Being transparent about our actions

Sustainability reporting

Sustainability opinion breakdown



Share of positive contributors per pillar



Impact indicator (climate stability)

Portfolio

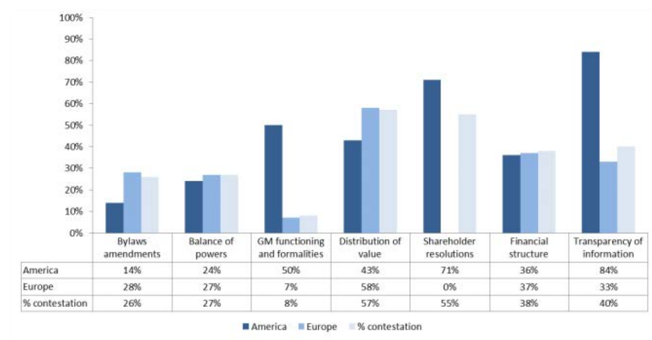
2.7°C

Index

4.2°C

Engagement reporting

Voting right exercise reporting



	Bylaws amendments	Balance of powers	GM functioning and formalities	Distribution of value	Shareholder resolutions	Financial structure	Transparency of information
America	14%	24%	50%	43%	71%	36%	84%
Europe	28%	27%	7%	58%	0%	37%	33%
% contestation	26%	27%	8%	57%	55%	38%	40%

Source: Mirova. This data does not represent an actual portfolio, but is included to illustrate the sustainability reporting process.

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