

Mirova Global Sustainable Equity Strategy

Monthly Commentary – June 2025

Market Environment and Performance Summary

Global developed equity markets, measured by the MSCI World Index, were higher in the second quarter of 2025, rallying after first quarter weakness, contributing to year-to-date performance. Global equities are now in positive territory year to date in U.S. dollar terms, while slightly lower in euro terms as the U.S. dollar has fallen in value more than 10% (vs a basket of currencies from major U.S. trading partners) to start the year. While U.S. policy uncertainty on trade/tariffs, Russia/Ukraine and the Middle East, immigration, drug pricing, and budget reconciliation ('One Big Beautiful Bill'), etc. continued to drive lower visibility, a 90-day pause and ongoing negotiations have helped to ease market volatility related to the U.S. reciprocal tariffs announcement on 2 April that was initially more extreme than expected. Additionally, a New York Trade Court ruling declared a significant portion of Trump's tariffs illegal. However, uncertainty persists.

Softer economic data combined with hotter U.S. inflation numbers and Fed cautiousness also contributed to risk-off sentiment during the first quarter of 2025. However, after U.S. consumer confidence plunged in April to levels seen at the height of the COVID-19 pandemic, it rebounded slightly in May, helping to ease fears of a potential consumer-led recession. At the same time, corporate earnings have been resilient, and there is no strong evidence yet of significant consumer weakness, particularly in the middle to high income segments of the population.

Markets rallied higher in recent months, rising on any developments perceived as positive. The S&P 500 rallied almost 25% in USD since 9 April (when President Trump announced the 90-day pause on the higher reciprocal tariffs for most countries) through the end of June to finish at a new all-time high, with the Stoxx 600 Europe also nearing new highs, despite an overall worse situation and still much higher effective tariff rate than prior to April. As the 9 July end of the 90-day tariff pause nears, we may see increased volatility.

Year to date by region, European equities have outperformed on U.S. uncertainty and positive developments in the region (e.g., German election outcome, ECB rate cut), while U.S. equities underperformed year-to-date. For the second quarter, U.S. equities have rebounded following tariff pauses, etc. to perform about in line with European equities. Year to date by GICS sectors, the Consumer Discretionary sector performed worst, with the Health Care and Energy sectors also underperforming the broader MSCI World Index. On the other hand, Industrials, Financials and Utilities outperformed on average, while tech and Magnificent 7-heavy Information Technology and Communication Services performed in the middle of the pack, having outperformed more recently during the second quarter.

Strategy Performance¹

June 2025 – Month-to-Date

The Mirova Global Sustainable Equity Strategy underperformed the global equity market during the month of June.

In terms of attribution by GICS sectors, sector allocation effect was a slight positive contributor to relative performance, while stock picking effect detracted. Regarding sector allocation effect, our overweight to Information Technology sector and underweight to Consumer Staples contributed positively to relative results. Our overweight to Health Care and our underweight to Communication

¹ Past performance is not a reliable indicator of future performance.

Services detracted from relative results. Regarding stock picking, stock picking within Financials, Industrials and Information Technology were the key detractors from relative results. Finally, our regional positioning, with an overweight to Europe and underweight to the U.S., was a slight detractor.

In terms of stock picking, within Financials, Mastercard was the main detractor from relative performance. Mastercard, as well as Visa, underperformed in part on reports of major U.S. retailers Walmart and Amazon exploring the use of their own stablecoins and in part on geopolitical tensions in the Middle East. Investors initially reacted negatively to the stablecoin news as it was viewed as a move that could potentially direct payment volumes away from the traditional payments largely facilitated by Mastercard and Visa. This came alongside the U.S. Senate voting to pass the GENIUS Act, which represents efforts to establish a comprehensive federal framework for the regulation of payment stablecoins. Overall, our view is that the market overreacted to the potential threat, and that this is not an imminent risk to Visa and Mastercard. Firstly, none of these concerns are new. Many of the big fintech companies like PayPal have already accepted crypto payments for some time. Every now and then there is news on disintermediation, but nothing has proven formidable against Visa and Mastercard thus far. Crypto could be useful in specific industries such as Gaming, but it is far from prevalent. Mega retailers such as Walmart and Amazon have been exploring alternative payment methods (i.e., other than through Visa and Mastercard rails) for several years. Merchants have also explored lower cost rails, but consumer behavior has proven very difficult to change. Considering the time needed for regulatory approval and implementation and adoption, the process may take longer than people think and with limited use cases. The fortress-like moat Visa and Mastercard have built will be very hard to break. Secondly, the recent pullback is also partly due to the market taking some risk off on the back of the Middle East conflict, with concerns related to reduced travel and, to a lesser extent, inhibited cross-border payments in the Middle East region. Both stocks recovered quickly after tensions eased in the Middle East.

Within Industrials, Waste Management was the main relative detractor as it underperformed the broader Industrials sector, particularly as investors favored the Aerospace & Defense industry within the sector following the launch of Europe's rearmament plan to increase defense spending. Finally, Waste Management held its Investor Day in late June, with some share price weakness following, as financial targets may have disappointed the market. We attended the Investor Day and, overall, management emphasized that WM can be a "forever stock" with a long runway for growth along with a people-focused culture, customer centricity, and operational excellence focus. There are some puts and takes on the outlook that could lead to some upside on outcomes including tax policy and/or additional M&A. The company has recently acquired Stericycle and appears to be figuring out what the optimized business model for this segment will look like, as the legacy company was not managed well. Overall, our views on management and the business and the long-term investment case remain positive.

Within Information Technology, Accenture was the main detractor from relative performance as they underperformed the broader IT sector that performed very strongly during the month. While Accenture delivered a good fiscal third quarter that beat expectations, including the tariff headwinds, lower federal spending and challenging macro, and raised FY25 EPS and free cash flow, as well as the low end of revenue guidance, the market reacted to light bookings and next quarter revenue guidance that wasn't as strong as expected given the FX benefit. Investors often extrapolate the health of Accenture by single bookings numbers that the company doesn't manage to, and, in this case, it was lighter than expected. Accenture continues to be a leading global IT services company that is well positioned to benefit from broader adoption of AI as they enable their customers to implement AI applications in their own day-to-day operations.

While stock picking within Information Technology overall detracted from relative performance, certain picks within the sector performed well and contributed positively to relative performance. Taiwan Semiconductor and Nvidia shares performed well since their early April year-to-date lows in part on a general rebound in growth stocks and on headlines that the Trump administration may take a different approach regarding its crackdown on chip exports, on tariff negotiations viewed as more positive than the initial early-April situation, and on the news that the U.S. was considering a major AI chip sale to the UAE follow President Trump's trip to the Middle East. The companies also delivered strong financial results. Taiwan semi reported financial results that beat both top and bottom-line consensus forecasts, reaffirmed its 2025 guidance of mid-20% revenue growth, and maintained capex guidance of \$38-42bn. During the earnings call, the company said it is not witnessing tariff impact on consumer behavior so far and it expressed confidence about AI chip demand from American companies, supporting the need to boost production capacity. Taiwan Semi reported May sales in mid-June as well that suggested Q2 may surpass guidance despite currency headwinds. Meanwhile, at the end of May, NVIDIA also reported a great first quarter. There was not much that went wrong with this quarter for NVIDIA considering there was a lot of nervousness going into it given China exposure and production issues. The Q2 guide was in line to better, with revenue growth for Q2 guided at +51.3% YoY growth with the \$8bn in China revenue removed. The high-performance GB200 chips are rolling out quickly, and they are just about to start shipping GB300s which do not require a new architecture, so there will be fewer problems if

any with production. The company also talked up the Sovereign end market potential becoming more meaningful, and Enterprise is seeing an inflection due to AI agents. With China de-risked (market assuming \$0), downside risk is lower than before. We maintain conviction in the long-term investment case for both Taiwan Semiconductor and Nvidia.

Outlook, Positioning and Portfolio Changes

Outlook and Positioning

Our overall base case is that the situation in the second half of 2025 and into 2026 is more negative than the base case we had entering 2025, primarily due to U.S. policy uncertainty and the impact of tariffs. However, the significant downside risk under the scenario of stagflation with high inflation and low economic growth is now less likely. We believe the risk to our outlook is skewed toward the upside.

We continue to seek attractive points of entry, focusing on areas of growth and preparing for further signs of stabilization. However, given the market has already rebounded significantly since President Trump's April 2nd Liberation Day, we remain prudent overall. For more information on the team's views on the macro and market situation as we move into the second half of 2025, please see our mid-year outlook write-up.

Regarding portfolio positioning, we continue to maintain the portfolio's barbell positioning overall, which we believe positions the portfolio for resilience relative to the broad market in a variety of market environments. A barbell position means that the portfolio is well balanced between 1) exposure to cyclical and growth-oriented sectors like higher growth tech areas, the consumer, and renewables and 2) defensive areas such as the Healthcare and Utilities sectors, more defensive consumer names and tech names that are less exposed to tariff impacts with strong recurring revenues. Specifically relative to the broad market, our portfolio is more defensively positioned which is illustrated by our relative overweight to Healthcare, Utilities, Food Production, and Technology names with recurring revenues compared to the MSCI World Index. Our geographical positioning is also more defensive, with an overweight to Europe with European stocks that are very diversified in terms of their revenue, supply chains, and production and whose valuations are reflecting a more negative scenario compared to the relatively positive scenario U.S. stocks seem to be priced for. We also analyze very closely how portfolio companies manage their supply chains in order to minimize the risks of U.S. tariffs exposure. For instance, we have less exposure to the cyclical industrial names likely to be impacted by tariffs and no direct exposure to China. Finally, we continue to focus on higher quality stocks with strong balance sheets, lower levels of debt and stable earnings and margins, alongside quality management teams, which generally exhibit outperformance in a risk-off scenario.

Overall, the way that we invest is based on the idea that the world is slowly changing. We have very strong transitions between how we live today and how we will live in ten years' time, and this continues to be true. These are secular demographic, environmental, technological and cultural or governance transitions, many of which persist regardless of what any election brings in any part of the world and regardless of economic cycles. We must still deal with climate change, but perhaps slightly differently from an investment point of view, as are increasingly confronted with the consequences of climate change, such as natural disasters, and what it means for the companies we invest in. We still have an aging population. We still have urbanization that is accelerating, an emerging middle class in developing countries, and growing economic inequalities in general. We still have generational shifts that impact the way we do business as well. We believe that these long-term themes will continue to be drivers of performance. As long-term investors, it's extremely important for us to maintain that long-term thinking and to translate that into ideas in the portfolio, taking into account current valuations. We continue to diversify the portfolio across and within the major long-term trends driving the economy.

Following our approach that has been in place for more than ten years, focusing on how the world is changing, while managing risk relative to the benchmark and the market environment, we believe we are well positioned to manage through this shifting context.

Portfolio Changes (June 2025)

During June 2025, there were no changes to the portfolio.

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