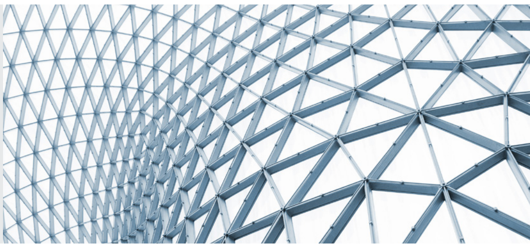
NATIXIS
INVESTMENT MANAGERS

The HUB

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



Find out more:
im.natixis.com/en-institutional

Making an "impact" with private equity

In a Q&A, Marc Romano says allocating acceleration capital to companies with innovative environmental solutions can create positive impact and attractive investment returns.

Key takeaways:

- In the past, some investors felt impact was at the expense of returns. To the contrary, as environmental impact investing feeds the growth of companies that solve sustainability challenges, investment returns are actually tied to impact.
- Acceleration capital investing is an efficient way to back companies which have a positive impact on the environment: in the acceleration phase, companies are established but still growing fast and few are expected to fail. This maximises the impact and financial return of investors' capital.
- As a pure-play ESG and impact investment firm, Mirova is uniquely positioned to accurately research and qualify potential investments which have positive impact and strong return potential.

Marc Romano
Head of Impact
Private Equity Funds
Mirova

What is impact private equity?

Impact investing can be simply defined as investing with a purpose to make a positive contribution that aligns with one or several of the UN sustainable development goals. For Mirova, impact comes through "intentionality", "additionality" and "measurability".

It is about investing in companies which are 100% focused on delivering a positive impact. Intentions are key, but so is the measurable value that a solution provides compared to other solutions. You can only claim to make a positive impact if you can objectively demonstrate the additionality and measure it.

Could you explain acceleration capital?

Along the private equity spectrum, acceleration capital can be defined as investing in the early-growth stage, in which companies are profitable or soon to become profitable, and already generate revenues through proven and demonstrable innovation. This growth phase investment usually follows on from VC funding and allows the scaling-up of technologies and businesses.

The great advantage of acceleration capital is that we can make the greatest possible impact. In early-stage VC, the failure rate could be high and only some of your capital ends up making a difference, while in the acceleration phase, companies are established but still growing fast. They are not expected to collapse. This maximises the leverage of investors' contribution.

If we rely on the management of the company we invest in, we are also an active shareholder in terms of supporting the company's development and usually sit on the board. We stay invested for five years on average until we exit either through consolidation with a larger company, through an IPO or through a sale to another portfolio manager. Exits will always be made with one an eye on the impact focus going forward.

How does this approach make an impact?

With less than 10 years to meet the United Nations' Sustainable Development Goals (SDGs), private equity has a critical role to play in the "decade of action" and can help fill the annual financing gap of $2.5 trillion. After green infrastructure and a flourishing venture capital scene, we think next-generation impact investments are in private equity, especially at the early-growth stage, where capital is injected to scale up innovations and businesses that help to solve sustainability challenges.

There are multiple ways of defining impact. For some, it is about investing in “grey” companies and making them green. Our approach is to select companies which have green DNA and multiply their impact footprints on the environment by providing them with acceleration capital to grow their business.

These companies benefit from strong macro trends linked to environmental transition, which feed their growth and exit multiples and, consequently, returns to our investors.

Some investors believe that impact comes at the expense of returns. To the contrary, our conviction is that impact investing feeds company growth and fundamentals. In this way, the success of sustainability solutions and investment returns are one and the same.

What kinds of companies do you invest in?

We target pan-European companies in five key sectors with a direct connection to the environment. These sectors are natural resources, agri-agro technologies, circular economy, clean energy and smart cities.

The value-add of our portfolio companies is to deliver positive impact in terms of at least one of the UN’s SDGs. We look for companies that have proven, mature and innovative solutions or technologies, and are willing to implement strong ESG standards. They have robust business models, are profitable or will be in the short term and the majority of the capital raised is used for growth. We don’t invest in infrastructure, we don’t invest in early-stage companies and, when we invest outside of Europe, we only look to invest in developed economies, not emerging markets.

How do you measure the impact of each company?

To demonstrate the impact of each investment, we examine the non-financial aspects with the same rigour as the financial ones. This is a core part of our due diligence. As we establish a business plan, we define an impact plan for each company and our independent impact committee validates this plan. On exit, an independent impact due diligence is performed by a third party and evaluated against the impact plan. If the impact is below expectations, this affects our carried interest – ultimately, our remuneration – by up to 50%.

Can you give examples of companies to which you have provided acceleration capital?

One example is Ombrea, which develops modular and connected shading systems to protect crops from climate hazards such as frost, hail and sunlight, while collecting meteorological data via integrated sensors. We led the funding round for Ombrea, investing €5.5m for a 26.45% stake. The impact aims are to save water, produce clean energy, improve productivity and increase farmers’ revenues.

Another example is an engineering technology company focused on vehicle pollution reduction, with 24 patents registered across 11 countries. Brake dust is really harmful and is a nightmare on subways. The company’s core technology, which captures brake dust, can be applied to buses, cars, heavy vehicles and rail. We invested €6m for a 9.91% stake, and have a seat on the board. A huge acceleration in the demand for the company’s products is expected in 2025 as EU regulations on dust capture come into force.

How do you find suitable investments?

We have privileged access to deal flow opportunities through Mirova’s deep network of partners. Mirova, created in 2012 as a pure-play sustainable finance firm, is a powerful brand in the ESG and impact space and is recognised as a true pioneer.

Entrepreneurs who have developed innovative solutions recognise Mirova as a potential partner capable of truly understanding their business and partnering with them. This brand recognition and expertise has given us the opportunity to review more than 100 opportunities in the last four months alone.

A second source of deals is our network of VC fund contacts. VC funds have seeded companies and brought them to the point of revenue generation where they now need growth capital to get to the next stage.

Then there are specialist and generalist financial advisers and, finally, entrepreneurs, who we are in regular contact with.

What return can investors expect?

When we look at companies, we need to be convinced they can deliver at least a multiple of 3x on our initial investment. At the portfolio level, we expect to realise 2.5x on average gross of fees. These are companies in fast-growth mode so there is clearly some risk, but our due diligence process is intense, and we create substantial diversification by sector, so there is little correlation between companies in our portfolio.

Investors also have to live with illiquidity: it takes time – on average around five years – to realise value. A strong risk mitigant is that we focus on environmental issues which are such an important driver of value right now that our companies should still grow even in a poor economic climate. This gives us an edge compared with traditional private equity funds.

Where does impact capital fit into investors’ portfolios?

Most insurers, pension funds, endowments and sovereign funds place acceleration capital for green companies in their private equity sleeve. In many cases, they consider it as part of their core private equity allocation. This is not surprising given that the issues addressed are too important to make impact investment a satellite part of the portfolio. One aspect of our mission is to broaden the scope of investors, so we also give access to high-net-worth individuals and mass affluent investors access.

How is Mirova suited to execute this investment approach?

Mirova's inherent strengths have multiple benefits for impact acceleration investments. It is a leading pure-player in impact investing. We can leverage the deep pool of Mirova's existing expertise in energy transition infrastructure, natural capital, social impact and sustainability research. When we wanted to research insect protein for an investment for example, our natural capital team already had experience in this field.

Mirova's internal network is an ecosystem which can rapidly assess potential investments, produce research and generate leads. Mirova also has a strong operational platform with €2.3bn of AuM in private investments and a proven track record. Mirova is second to none in the private equity landscape in term of experience and resources for impact investing.

Published in October 2021

ADDITIONAL NOTES

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.
In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. Belgium: Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. **In France:** Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **In Switzerland:** Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. **In the British Isles:** Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland:** this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008. **In the DIFC:** Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10 ,ICD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates **In Japan:** Provided by Natixis Investment Managers Japan Co., Ltd. Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No.425. Content of Business: The Company conducts investment management business, investment advisory and agency business and Type II Financial Instruments Business as a Financial Instruments Business Operator. **In Taiwan:** Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788.**In Singapore:** Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and institutional investors for informational purposes only. **In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only. **In Australia:** Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. **In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand. **In Latin America:** Provided by Natixis Investment Managers S.A. **In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. **In Colombia:** Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors. **In Mexico** Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.
The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.
The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Past performance information presented is not indicative of future performance.
Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.
All amounts shown are expressed in USD unless otherwise indicated.

Mirova
Affiliate of Natixis Investment Managers
French Public Limited liability company
Share Capital: €8,813,860
Regulated by the Autorité des Marchés Financiers (AMF)
under n° GP 02014. RCS Paris n° 394 648 216
59 avenue Pierre Mendès France
www.mirova.com

Natixis Investment Managers
RCS Paris 453 952 681
Share Capital: €178 251 690
43 avenue Pierre Mendès France
75013 Paris
www.im.natixis.com

.INTXXX-1021