MIROVA POINT OF VIEW

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Brexit – Initial thoughts

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The UK has woken up as a divided country. While 52% of the voters prefer to leave the European Union, 48% wanted to stay. At first glance, it looks like some important patterns are visible. London, Scotland and Northern Ireland wanted to stay. Wales and the North of England wanted to leave. Millennials wanted to stay. The older generation wanted to leave. While this vote does not change the challenges our world is facing in its evolution, it does create a lot of short term uncertainty. Expect economic growth to be negatively impacted, yields to go lower, central banks to keep rates low for longer and to continue their accommodative policies for the foreseeable future. Also expect equity markets to fall by at least 10%, the GBP and EUR to lose value against the USD, JPY and CHF and corporate and periphery bonds to underperform as the market goes into a risk-off mode. Also, within equities, expect financials and consumer discretionary to underperform and healthcare, energy and consumer staples to outperform.

Political uncertainty will weigh on markets for the next few weeks, not helped by the upcoming US elections and the call from some polity for similar referenda in France and the Netherlands. In this context, it remains important to focus on structural growth trends which we find in all of our themes. The brexit vote has no impact on climate change, depletion of natural resources and changing demographics for instance. It just adds to the volatility, which should give us an opportunity to add to our highest conviction themes and stocks at lower valuation levels.

MIROVA EQUITY RANGE: CONVICTION PORTFOLIO MANAGEMENT

Mirova equity range presents for some strategies important underexposure to UK, for instance Mirova Europe Sustainable Equity Strategy, Job Creation Strategy, Mirova Europe Environnemental Equity Strategy and Mirova Global Energy Transition Equity Strategy. These biases are the results from our bottom-up stock selection and not from any geographical allocation.

EQUITY RANGE	UK active exposure (%)	Benchmark
MULTITHEMATIC STRATEGIES		
Mirova Euro Sustainable Equity Strategy	0.00%	MSCI EMU
Mirova Europe Sustainable Equity Strategy	-9.30%	MSCI EUROPE
Mirova Global Sustainable Equity Strategy	-1.70%	MSCI WORLD
THEMATIC STRATEGIES		
Job Creation Strategy	-28.40%	MSCI EUROPE
Mirova Europe Environmental Equity Strategy	-14.13%	MSCI EUROPE
Mirove Europe Real Estate Securities Strategy	0.09%	FTSE EPRA EUROPE CAPPED
Mirova Global Energy Transition Equity Strategy	-5.40%	MSCI WORLD
Mirova Global Water & Agriculture Equity Strategy	-0.46%	MSCI WORLD

Source: Mirova as of 23 June 2016

Specific analysis for Mirova Europe Real Estate Securities Startegy: tactical neutrality

The specificity of Mirova Europe Real Estate Securities Strategy is its asset class: REITS. The strategy invests in Europe and UK situation has important consequences on listed Real Estate companies that will be affected by Brexit. As such, the portfolio manager decided several weeks ago to choose tactical neutrality in comparison with its benchmark FTSE EPRA EUROPE CAPPED.

MIROVA FIXED INCOME RANGE

Mirova Fixed Income range is based on issue selection with a mid-term horizon: we invest in issuers positioned on solutions for sustainable development challenges and we favor Green and Social bonds.

Even if Brexit does not affect these long-term challenges, it will further increase market volatility. The “divorce” will take at least 2 years. Political uncertainty (with potential contagion risks to other countries) will weigh on global economic growth. In this context, the central banks will be working to smooth financial markets. Central banks are likely to inject liquidity, lower their short-term rates and increase their debt purchasing programs.

Long-term rates should remain low over the long term. The safer assets, Japanese and American long-term rates will first benefit from it.

Today, 10 -year Bund rates (safe havens) fell by 0.20 % up to -0.11 % historic low.
Peripheral government bonds (Italy and Spain) have widened to about 0.25 % against the Bund. Similarly investment grade credit issues widened by about 0.20 %.

Points of attention :

Fall of GBP

- Our foreign exchange positions are systematically covered.

Temporary volatility in credit issued by banks

- We are very little exposed to UK banks (Nationwide).
- We are generally little exposed to bank subordinated debt (that are most risky).

Interest rates will fall and remain low

- We have duration level in line with those of our benchmarks.

Temporary volatility in credit issued by companies and peripheral government bonds

- Bonds issued by UK issuers that we hold are little exposed to Brexit, such as supermarkets Morrison or Transport For London.
- We favor corporate debt issuers and especially defensives (green utilities). Our strong credit exposure (companies and banks), 32% of the aggregate portfolios vs 16% for the benchmark, gives us the performance against negative rates of the German curve up to 15 years.

Our issue selection generates a long bias on credit securities in the euro zone and on the Italian, Spanish and Portuguese issues. This, over the short term, could generate an underperformance relative to our benchmarks. However, these issues will bring value over the medium term.

We also remain heavily invested in agencies and regions issues, mainly from the euro zone.

We believe that the ECB will increase its corporate debt and peripheral states purchase programs. This will limit the price volatility over the long- term.

Volatility therefore generates investment opportunities as part of our long-term horizon. We will take advantage of more attractive returns in the coming days to strengthen our positions in Euro-zone corporate issuers.

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