

# THE HUB MARKET INSIGHTS

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

> Find out more:  
Visit: [www.im.natixis.com/en-institutional/the-hub](http://www.im.natixis.com/en-institutional/the-hub)

## Step by step: Reducing the carbon footprint of investments

### Key Takeaways:

- Accurate measurement of the carbon footprint of investments is vital for keeping pace with the global objective of +2°C.
- Responsible investor Mirova teamed up with experts to develop an innovative methodology that calculates both induced and avoided emissions on a lifecycle basis, providing a roadmap for reorienting investments.
- Passively managed funds won't do – most indices represent an economy in step with a 4.5°C - 5.5°C climate scenario, indicating severe, adverse effects to come.
- Climate-conscious active management can reduce long-term risk, encourage innovation and create further opportunities towards a transitioning economy.

**Only climate-conscious, active management investment strategies are fit for a 2°C world.**

The world is changing. Investors can no longer look to existing strategies and indexes – clearly representative of the "old" economy – to be sufficient during the current transition towards the "new". This is especially true regarding environmental issues in light of the Paris Agreement, the recent UN Sustainable Development Goals becoming standard for investment strategy assessments, and increasing public and regulatory pressure.

Over the past year for instance, the French Article 173 has required investors to report on the non-financial impacts of their investments. The public, made up of none other than final investors, is becoming increasingly exigent in its calls for action to combat climate change. No matter whether rooted in a moral calling to protect the environment or a desire to avoid the risks associated with this economic transition, it is time for institutional investors to look at the ESG impacts of their investments.

The trajectory is clear. But, before setting a goalpost, it is important to assess the starting point; a robust and reliable carbon footprinting methodology serves as the basic tool for assessing and improving climate impact.



**Hervé Guez,**  
Global Head of Research  
and CIO of Equities &  
Fixed Income  
Mirova

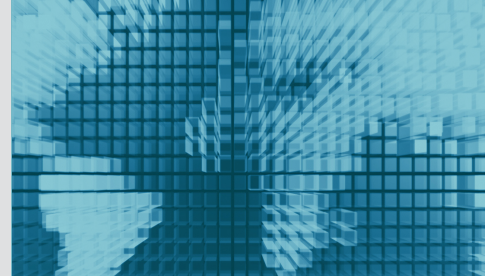
### The art of interpreting carbon footprints

There are several methods for measuring carbon footprints of investments, but they generally do not consider a company's entire business model. Some rely only on a company's direct emissions and the emissions from its energy use. Others do not consider the benefits of products through measures like avoided emissions. Both are essential for understanding a company's, and consequently a portfolio's, climate impacts.

First, looking only at direct and energy use emissions does not take into account supply chain or use-phase emissions. Most of oil and gas extraction companies' carbon footprint comes from the use of their products by the final consumer; this is not captured unless use-phase emissions are estimated. Though simple, this example illustrates by itself that an issuer's direct emissions alone can inadequately depict its climate impacts, potentially misrepresenting the company's risk exposure.

# THE HUB MARKET INSIGHTS

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



Then, consider a company that manufactures cosmetics and a company that manufactures wind turbines. Looking at direct and energy-use emissions alone, their carbon footprints are the same. But this is counterintuitive: doesn't a turbine manufacturer contribute far more to the energy transition? For this reason, it is essential to also consider the emissions avoided by the companies' activities relative to the regional energy mix. The turbine company's avoided emissions will be far higher than the cosmetics company's, demonstrating the far greater magnitude of its positive climate impacts.

As an investment manager, we believe that measuring the carbon footprints of our investments is a crucial issue. **Unsatisfied with existing methods, we decided to team up with experts to develop an innovative methodology able to calculate both lifecycle and avoided emissions.** This data is translated into a telling climate scenario indicator, which helps us to understand the relative impacts of our strategies and provides a roadmap for reorienting investments.

## Following indexes: are we on the wrong track?

We believe that recognising the need to invest in a way compatible with the international consensus of limiting global warming to 2°C is the first step forward for investors. Understanding the various approaches to carbon accounting, looking at both climate opportunities and risks, the second. Then comes the most important step: acting on it.

Indexes still have a long way to go as far as climate issues are concerned. **Most represent an economy on track to achieve a 4.5°C-5.5°C climate scenario, indicating severe, adverse effects.**

Sectors most exposed to climate change (energy, resources, buildings, and mobility) make up a substantial part of the major indexes, and large companies in these sectors have yet to sufficiently develop innovative solutions to compensate for their presence in and contributions to the fossil-fuel reliant economy. This reflects the richness of large industrial groups in the world economy, as well as the lack of risk capital for new companies. And, as a result, passively-managed funds that track traditional indices are in line with the "old" economy rather than seeking to balance it with the "new", low-carbon economy.

Therefore, strategies relying on the major market indexes are not sufficient to mitigate the diverse risks associated with climate change. Passive management, which is nothing more than the choice to not choose, will not do it this time. But, there remain several potential paths for making investments more climate-friendly, namely carbon-conscious active management strategies that are not closely linked to indexes.

## Next steps for investors

Active managers can allocate the capital at their disposal in ways that address the environmental, social, governance, regulatory, and reputational risks ahead. If these strategies are well designed, they fuel themselves: seizing new investment opportunities generates better medium-term profits while mitigating climate change, which will in turn ensure better profits over the long-term. Not only does this carbon-conscious active management approach reduce long-term risk, but it encourages innovation, which can lead to even more opportunities related to the transitioning economy.

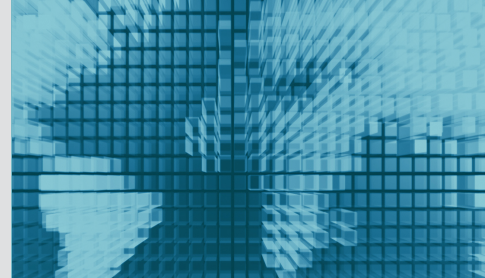
So, investors looking to reduce the climate impacts of their investments and perform over the long-term can seek out asset managers which have thoroughly assessed and begun to tackle the task at hand. Until carbon footprinting methodologies for creating low-carbon indexes are developed and applied, offerings mainly consist of actively-managed strategies that take carbon impacts into account, though methodological differences could lead to differing levels of impact. **At Mirova, we have worked to decrease our strategies' carbon impact, to line up with the 2°C objective, without hindering their performance.** Today, our consolidated equity funds are compatible with a 1.5°C scenario, compared to 2.9°C two years ago. This was achieved by looking for investment opportunities beyond the obvious: not just renewable equipment manufacturers but throughout the entire value chain of renewable energy and energy efficiency solutions. And not just large companies present in indexes, but also mid-cap companies with sound business models proposing innovative solutions. Through this active, carbon-conscious management of both diversified and thematic strategies, Mirova has substantially reduced the climate profile of its investments – and thus its exposure to the associated risks – all with a view to generate sustainable, long-term performance.

The world is changing and so are we. Finance can and must play a role in transitioning to the "new" economy and staving off the worst effects of climate change by providing investment solutions designed to address the associated opportunities and risks. Step by step, investors' carbon footprints can become lighter.

Written in May 2018

# THE HUB MARKET INSIGHTS

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



## DISCLAIMER

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):** 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. **France:** Natixis Investment Managers Distribution (n.509 471 173 RCS Paris). Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via Larga, 2 - 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.

**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 U.K.:** Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258). This material is intended to be communicated to and/or directed at persons (1) in the United Kingdom, and should not be regarded as an offer to buy or sell, or the solicitation of any offer to buy or sell securities in any other jurisdiction than the United Kingdom; and (2) who are authorised under the Financial Services and Markets Act 2000 (FSMA 2000); or are high net worth businesses with called up share capital or net assets of at least £5 million or in the case of a trust assets of at least £10 million; or any other person to whom the material may otherwise lawfully be distributed in accordance with the FSMA 2000 (Financial Promotion) Order 2005 or the FSMA 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Intended Recipients"). The fund, services or opinions referred to in this material are only available to the Intended Recipients and this material must not be relied nor acted upon by any other persons. Registered Office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER.

**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 as defined by the DFSA. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, 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 discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

**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: 16F-1, No. 76, Section 2, Tun Hwa South Road, Taipei, Taiwan, Da-An District, 106 (Ruentex Financial Building I), R.O.C., license number 2017 FSC SICE No. 018, Tel. +886 2 2784 5777.

**In Singapore:** Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

**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, oficina 102B, 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 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. 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 to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

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. 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.

## Natixis Investment Managers

RCS Paris 453 952 681  
Share Capital: €178 251 690  
43 avenue Pierre Mendès France  
75013 Paris  
[im.natixis.com/en-institutional/the-hub](http://im.natixis.com/en-institutional/the-hub)

## Mirova

Affiliate of Natixis Investment Managers  
Limited liability company  
Share Capital: €8 322 490  
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](http://www.mirova.com)