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Investing in sustainability

NATIXIS
INVESTMENT MANAGERS

Emissions Impossible

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PLEDGES MULTIPLY, EMISSIONS REMAIN

It has now been 30 years since the IPCC[1] issued its first warnings on the impact of climate change and many governments pledged to address these issues over 10 years ago. While growing political consensus on the need to achieve carbon neutrality is a fact, and although a rising number of countries have committed to supporting this goal, it is often unclear how these pledges will materialize. Governments need to send out a message loud and clear, confirming their resolve to massively adopt clean technologies in order to achieve a zero-carbon economy.

A report published by the United Nations in 2021 alerted the signatories of the Paris Agreement to the fact that the current national pledges will take us on a "catastrophic" pathway with a +2.7°C rise in temperatures, falling far short of the 1.5°C target[2] needed to limit the worse consequences of global warming. The IPCC's latest report also delivered a stark warning and was described by Antonio Guterres[3] as an "*atlas of human suffering and a damning indictment of failed climate leadership*".

Similarly, at corporate level, pledges are flurrying but remain insufficient. We are still placing too much hope in carbon capture technologies and offsetting mechanisms, but it is increasingly urgent to electrify our uses, to decarbonize the electricity produced and more generally, to adopt the innovative and virtuous solutions that are already available.

INSTITUTIONAL INVESTORS CAN PLAY A ROLE IN RETHINKING BUSINESS MODELS AND PROMPTING AN IMMEDIATE AND MASSIVE SHIFT IN CAPITAL FLOWS

If we are to have any chance of avoiding the worst consequences of climate change, then it is urgent to focus on deeply transforming our societies. Carbon neutrality – which can only be contemplated at global - or at the very least - regional level, will require the in-depth transformation of companies' business models, and of their reliance on fossil fuels and resources. Several actions can facilitate these transformations: pro-actively allocating funds towards the most virtuous companies and projects; engaging with companies and encouraging them to transform, for example by adopting a status aligned with current challenges (mission-driven company[4], B Corp[5]); and why not, cutting off capital flows into companies that are reluctant to change.

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1. Intergovernmental Panel on Climate Change (IPCC)
2. Source: UNFCCC report, Sept 21
3. https://www.un.org/africarenewal/magazine/february-2022/ipcc-adaptation-report-%E2%80%98-damning-indictment-failed-global-leadership-climate%E2%80%99
4. https://www.economie.gouv.fr/cedef/societe-mission
5. Since 2006, the B Corp movement has upheld strong values with the aim of turning companies into a 'force for good" and highlighting companies that successfully combine for-profit and for-purpose considerations. The objective of B Corp is to certify companies that integrate social, societal, and environmental objectives into their business model and operations. To find out more: www.bcorporation.net/about-b-corps/. A label is no guide to the future performance of a company or of its management.

We all have a role to play, asset managers and institutional investors alike. Because the solutions that can help make emissions impossible already exist.

EXCLUSION, ALLOCATION, AND ENGAGEMENT: THE TRIUMVIRATE FOR ACHIEVING A NET ZERO PORTFOLIO?

One solution that would enable us to achieve net-zero portfolios by 2050 is to carry out a carbon analysis to identify carbon-intensive sectors, and then apply an informed exclusion strategy. This could involve excluding carbon intensive sectors such as coal, oil, or gas if reduction strategies are unclear or insufficient in relation to the International Energy Agency's recommendations, which point out that no new oil and natural gas fields are needed in our pathway. However, this wouldn't go far enough. And neither would restricting investments to sectors generating zero or very limited emissions, such as media or finance. These decisions may give the illusion of a net zero portfolio; however, they neither contribute towards the much-needed transformation of the economy, nor allow investors to reap any reward from this transformation.

On the road to net zero, it is essential for institutional investors to use their 'power of allocation' to identify companies able to contribute towards the transformation of the economy. These include players that have set ambitious carbon reduction pathways, irrespective of their sector, and companies developing solutions addressing the entire economy, that need financial support as they scale up. This second category comprises renewable energies, hydrogen, and energy efficiency solutions.

This allocation or reallocation phase can be conducted across the full asset class spectrum: listed assets – focusing on issuers fostering the environmental and energy transition, green bonds, or the best of both worlds through multi-asset vehicles – or real assets, by investing in infrastructure projects dedicated to the energy transition or the preservation of natural capital.

> *Beyond their role as asset allocators, institutional investors also have a second role to play as shareholders, supporting these companies and encouraging them to strengthen their decarbonization strategies.*
> *To divest or not to divest: that's not the right question.*

Beyond their role as asset allocators, institutional investors also have a second role to play as shareholders, supporting these companies and encouraging them to strengthen their decarbonization strategies. Whether to divest or not is asking the wrong question. Before divesting, investors should engage with the companies that have not yet taken the road to carbon neutrality, or that have set themselves insufficient goals. If these initiatives prove unsuccessful, then divesting can also be a form of shareholder engagement.

The solutions for achieving carbon neutrality exist. We now have to speed up regulatory initiatives to ensure these become indispensable, by developing a framework for impact measurement, as well as a mechanism that will facilitate allocation towards 'green' assets in prudential terms.

It is also essential for institutional investors to be assisted by asset managers that are not only "green" in appearance but are pushing back the boundaries. Since the launch of the firm in 2014, Mirova has been driven by the following ambition: to use investing as a lever to fight against climate change and foster carbon neutrality.

At Mirova, all of our investment solutions aim to contribute to this collective effort by meeting three objectives:

- Offering solutions consistent with the Paris Agreement[6];
- Offering investment blocks that allow our investors to accompany their alignment pathway;
- Working hand-in-hand with the companies and the projects we invest in to move towards a global net zero trajectory by 2050, through shareholder engagement.

6. Mirova aims, for all its investments, to offer portfolios that are consistent with a climate trajectory of less than 2°C defined in the 2015 Paris agreements, and systematically displays the carbon impact of its investments (excluding Inclusive and Natural Capital strategies), calculated using a proprietary methodology that may include biases.

Legal information

About Mirova

Mirova is an affiliate of Natixis Investment Managers and is dedicated to Sustainable Investment. As a conviction-driven asset manager, Mirova aims to create long-term value for its clients, while fostering sustainable development. As a pioneer in many areas of sustainable finance, Mirova's ambition is to continue innovating to offer its clients impactful investment solutions. Mirova and its affiliates manage 28.5 billion euros in AUM as of December 31st 2021. Mirova is a B-corp certified and mission-driven company*.

*A label is no guide to the future performance of the funds or to the performance of their managers.

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Non-contractual document, issued in March 2022

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