mirova
Responsible Investing

ACTING AS A RESPONSIBLE INVESTOR

IN FULFILLMENT OF ARTICLE 173 OF THE FRENCH ENERGY TRANSITION LAW

June 2017

Document intended for professional clients only in accordance with MIFID

EDITORIAL

With this piece of legislation requiring investors and asset managers to disclose the way in which they integrate sustainable development issues into their investment strategies, France has taken concrete action to support its commitments at the COP 21. This law sets an example for future legislation, both in Europe and American states such as California, where there is a strong desire to demonstrate that even though the country has pulled out of the Accord, they are still fully committed to a greener future.

Mirova's creation was based on the conviction that these sustainable development issues should be at the heart of its investment policies. This is our interpretation of corporate responsibility, and we believe, furthermore, that these issues will be the primary source of innovation and new investment opportunities over the coming decades.

This report, created in fulfilment of Article 173, is much more than a legal requirement for us. It is an opportunity to demonstrate our practices for investors that have already given us their trust and to introduce ourselves and our approach to future clients.

TABLE OF CONTENTS

Mirova was created in 2012 as a division of Natixis Asset Management (BPCE Group) and became its own asset management company dedicated to responsible investment in 2014. Mirova is located in France and in the United States.

Our Vision: Our Investment Strategies Make an Impact

As an asset manager, we believe that our investment choices help form the world of tomorrow. With the major demographic, technological, environmental, and governance changes that the world is currently undergoing, our investment strategies must make sense. Over the past 10 years, the development of responsible investment markets has made it possible to avoid investing in companies with poor environmental, social, and governance practices. We believe that acting as a responsible investor requires going beyond these approaches. The challenges of a sustainable economy are central to Mirova's strategy. In keeping these challenges in mind, Mirova offers solutions that benefit not only investors, but all of the company's stakeholders over the long term.

Our Mission: Offer Investment Solutions that make a Positive Impact

As a third-party asset manager, we provide a wide panel of investment solutions to our clients, be they individuals or institutional investors, for equities, fixed-income, renewable energy infrastructure, and social impact investing. All strategies developed by Mirova are based on the goal of targeting assets with both economic return and a positive environmental and social impact.

An Expertise Covering Multiple Asset Classes

In order to provide this varied expertise, Mirova relies on its nearly 70 employees , with 6.6 Bn€ in assets under management as of 31 December 2016.

Listed Equities (3.1 Bn€). Mirova offers diversified funds covering all sustainable development themes in the Eurozone, Europe, and worldwide. Mirova also offers impact investing strategies to its clients: a fund dedicated to environmental issues and another fund that invests in job creation in France.

Sustainability Bonds (1.7 Bn€). Our offer is focused on green and social bonds, covering three strategies: Euro Aggregate, Euro Corporate, and Global.

Infrastructure (1.6 Bn€). Mirova offers two types of infrastructure investment: a fund that invests in renewable energy, positioned on mature technologies in Europe (wind, solar, biomass, etc.), and a general fund focused on public utility projects in France and Europe (universities, stadiums, hospitals, urban and rail transport, road infrastructure, etc.).

Social Impact Investing (0.1 Bn€). Mirova offers a fund that invests in projects and unlisted companies with high social and environmental impact.

The management teams are assisted by the **Responsible Investment Research** team, Mirova's centre of expertise for taking sustainable development issues into account in investment decisions.

1. Our Responsible Investment Approach

Acting as a "responsible investor" requires interpreting the economic world within its social and environmental context. This analysis cannot be limited to a study of the short/medium-term profitability for each asset individually, but rather requires an understanding of interactions between the various public and private players, small/medium/large-sized companies, and developed and developing economies in order to ensure that growth of each player is compatible with the balance of the rest of the system. It is a long-term approach that guarantees that today's choices will not have negative consequences for future generations.

Understanding these complex relationships requires:

- a clear interpretation of the major transitions our societies are undergoing
- an attempt to anticipate the consequences of these transitions as part of our investment strategies.

1.1 A World in Transition

These major changes that our society is facing can be divided into four categories: demographics, technology, environment, and governance.

Demographics

Although the rate of demographic growth is slowing globally, the world's population should continue to grow over the coming decades. This growth is essentially concentrated in developing countries, where birth rates remain high. In mature economies, population growth is much more limited and is even negative in some regions. Improvements in health care have increased life expectancy everywhere, leading to ageing populations.

In parallel to these changes in birth rate and life expectancy, migrations are become more and more prevalent. At the national level, cities continue to attract more and more inhabitants, particularly in emerging countries. Internationally, inter-country migration is increasing at a rate nearly twice that of the growth rate of the world's population.

Population Growth	*Ageing*	*Urbanisation*	*Migrations*
9.8 billion	17%	2/3	400 million
# of people in 2050	percentage of the population that will be over age 65, compared to 8.5% currently	of the world's population will live in a city, compared to ~50% currently	# of international migrants in 2050, compared to ~ 250 currently

Source: Mirova / United Nations / U.S. Department of Health and Human Services / World Bank, 2017

Technology

This demographic growth is accompanied by constantly accelerating technological changes. Means of mechanisation and automation are continually developing and gaining ground in all sectors, from agriculture to industry, transportation to services. At the same time, dematerialisation and increasing connectivity are opening an unprecedented number of doors, and advances in analytics are bringing us closer and closer to artificial intelligence and virtual reality. Discoveries also continue to be made in biotech, leading to major shifts in the health care and agriculture sectors.

Big Data	*Digitalisation*	*Health Biotechnology*	*Agricultural Biotechnology*
+40%	4.6 billion	200 Bn$	15%
Annual growth in digital data	# of internet users (58% of the population) in 2021, vs. 3.3 Bn (44%) in 2016	Biopharm expenditures in 2016	Estimated growth of the micro-organism market in agriculture

Source: Mirova, 2017

Environment

However, access to technological progress by more and more people brings us closer and closer to the finite nature of our planet's resources. Despite our efforts to fight against climate change, we remain on a path incompatible with the 2°C objective set by world leaders in the Paris Accord. At the same time, ecosystem degradation and resource depletion create problems for communities, such as access to water and food, and increase the risk for natural disasters. This awareness of environmental limits requires all actors to rethink their means of production and consumption.

Climate Change	*Water Resources*	*Ecosystem Protection*	*Air Pollution*
-50%	3.9 billion	12 million	92%
Reduction in global GHG emissions required by 2030 to attain a 2°C scenario	# of people in water stress situations in 2050 in a business-as-usual situation, compared to 1.6 billion in 2000	# of hectares of land lost from soil degradation each year, larger than the area of Portugal	Portion of the world's population breathing ambient air that is too polluted

Source: Mirova / IPCC / United Nations / OECD / WHO, 2017

Governance

These demographic, technological, and environmental changes in a global, liberalised context lead to greater tensions such as an increase in inequalities and the temptation to withdraw into nationalism.

Between high levels of debt and a limited ability to obtain additional resources, governments no longer have the financial means to deal with these issues alone. Globalisation has simultaneously led to rapid growth for many multinationals, some of which have attained an economic power that rivals certain countries.

States do retain, however, the power and means to weaken companies that obstruct public interest. Companies should, therefore, use their influence not only to maintain their competitive advantage, but also to co-create regulations that are mutually beneficial on the medium and long term.

In face of these challenges, public and private entities must work together on sustainable development and reform their governance practices.

Inequality	*National Debt*	*Responsibility*
1%	52 000 Bn$	>2000
Portion of the population that possesses 50% of the world's wealth	National debt at the end of 2015, or 71% of the global GDP vs. 57% of the global GDP in 2000	No. of B Corps in the US

Source: Mirova / World Bank / Prophil, 2017

1.2 The SDGs, a Positive Response to Current Transitions

As with all changes, these transitions are sources of both risks and opportunities. To this end, in September 2015 all world nations adopted a new sustainable development program proposed by the United Nations. This program is the follow-up to the Millennium Development Goals, adopted in 2000. It sets 17 Sustainable Development Goals (SDGs) for 2030, broken down into 169 specific objectives designed to confront the major social and environmental problems the world is facing. The SDGs can be read as a road map for responding to these major transitions in an inclusive and sustainable way.

Figure 1: The 17 Sustainable Development Goals

1 NO POVERTY	End poverty in all its forms everywhere	10 REDUCED INEQUALITIES	Reduce inequalities within and among countries
2 ZERO HUNGER	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	11 SUSTAINABLE CITIES AND COMMUNITIES	Make cities and human settlements inclusive, safe, resilient and sustainable
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	13 CLIMATE ACTION	Take urgent measures to combat climate change and its impacts
5 GENDER EQUALITY	Achieve gender equality and empower all women and girls	14 LIFE BELOW WATER	Ensure availability and sustainable management of water and sanitation for all
6 CLEAN WATER AND SANITATION	Ensure availability and sustainable management of water and sanitation for all	15 LIFE ON LAND	Protect, restore and promote sustainable use of territorial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	17 PARTNERSHIPS FOR THE GOALS	Strengthen the means of implementation and revitalize the global partnership for sustainable development
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation		

Source: United Nations

1.3 What Does this Mean for a Responsible Investor?

The creation of Mirova in 2012, a company dedicated to responsible investing, is a response to this situation. All Mirova investments, be they stocks or bonds, listed or unlisted, companies or projects, share the same approach: reconcile creation of economic, environmental, and social value. Applying these principles requires an approach tailored to each asset class.

Listed Equities

These four major transitions - ecological, demographic, technological, and governance - have long-term effects on our economies and require the creation of a new socio-economic paradigm in order to respond to the SDGs defined by the United Nations.

For companies, the major issue at stake is development of new models for sustainable growth that are inclusive and compatible with the energy transition. Innovation and integrating sustainable development issues into strategic decisions will be the main factors for success. For investors, the major issue at stake is reorienting their capital allocation strategies towards innovative and sustainable companies that will shape our future and become the winners of tomorrow.

Therefore, the strategic integration of sustainable development has also become a factor in remaining competitive and ensuring sustainable performance. It is this conviction that is the basis for Mirova's responsible investment approach for listed equities. The goal of this approach is to create medium-term financial performance while contributing to preservation of human and environmental capital, a necessary condition to deliver long-term performance.

How do we reconcile these goals? Our active conviction-based portfolio management prioritises investments in:

- players offering sustainable solutions with positive implications for the SDGs
- innovative players that will contribute to shaping the world of tomorrow while managing their ESG risks. We thus create investment portfolios that generate triple performance - social, environmental, and financial - that we seek to improve through our voting policy and responsible engagement.

Fixed-Income

On the bond market, Mirova's search to reconcile positive environmental, social, and financial impacts translates to a major investment in promotion and assistance for sustainability bonds, a key part of its fixed-income strategy.

Applying the same strategy to bonds that Mirova uses for stocks would not make sense. The great diversity of the bond market adds several complications to the analysis process. First of all, when we look at the market through the lens of energy transition issues and target companies that provide solutions, the investment universe is limited to less than 1% of traditional bond indices. Second of all, analysing the sustainable development policies of public and parapublic issuers has little pertinence for an investor seeking to make an impact. A better ESG grade for a sovereign bond that combines level of education, CO2 emissions, and fighting corruption does not guarantee that capital will be used in a way that benefits sustainable development more than if this capital had been allocated to a sovereign with a lower ESG grade.

On the other hand, debt instruments offer a variety of possibilities for financial innovation in response to sustainable development issues. The most important of these are green and social bonds, which provide an ideal solution for investors seeking to make an impact. These bonds finance projects with the intent of generating positive environmental and/or social impacts. As these bonds ensure a direct link between projects and financing, they provide all issuers with the opportunity to have their low-carbon activities financed by bond investors and to benefit from improved visibility of these projects.

Since its inception, Mirova has encouraged the development of the green and social bond market through its research, active participation in international market institutions (*Green Bond Principles* and *Climate*

Bonds Initiative) and French market institutions (TEEC Label, Paris Europlace), regular, constructive dialogue with market players, and, of course, its investment efforts.

In providing fixed-income solutions either wholly or mostly comprised of investments in green and social bonds, Mirova reinforces this position. In fact, since the creation of the company, the portion of green and social bonds held in Mirova's portfolios has risen steadily. Today, these bonds represent nearly 1 Bn€.

Infrastructure

As national debts rise, governments commit less and less to financing infrastructure (public transport, airports, energy, sanitation, hospitals, prisons, etc.). However, as mentioned in SDG #9, there is a clear need to finance sustainable infrastructure. This need can be filled by:

- finding alternatives to public funds to finance infrastructure

Several programs, at both the national and supranational level, have been launched to mobilise long-term investments in infrastructure needs. Either public or private financing is emphasised. There is, however, a consensus on the fact that only a combination of these two sources of financing will truly be effective.

- orienting these investments towards projects with a *Positive* environmental and social assessment

Some projects have a direct environmental or social effect (renewable energy, hospitals, schools). In other cases, the environmental and/or social benefits for society are less tangible, or even non-existent. Additionally, constructing large infrastructures sometimes generates collateral social or environmental damage. Therefore, these impacts must be assessed based on expertise specific to the type of project and region involved.

Mirova's infrastructure investment solutions respond to these issues. These solutions include:

- funds invested in the European renewable energy sector (wind, solar, biomass, etc.)
- funds invested in public interest projects in France and Europe through public-private partnerships or public service delegation contracts.

In order to ensure the environmental and social quality of these projects, each asset is evaluated, taking into account performance criteria, project governance, and social and environmental elements. These analyses are reviewed by the investment committees and are the basis for engagement with project developers.

Social Impact Investing

In France, Mirova is also a leader in financing the social and solidarity economy. We are a strategic partner of France Active, a key player in the sector. Together, we developed a strategy focused on the issue of job creation in France. We also finance many important structures through a specific offer for employee savings plans.

2. Assessing Environmental and Social Quality

Applying our philosophy requires an assessment of the environmental and social quality of all assets in order to inform investment choices and to provide our clients with the results of this process.

2.1 Our Approach

Our analysis of sustainable development issues is based on the following principles:

A Risk / Opportunity Approach

Achieving the SDGs requires taking two different dimensions into account that often go together.

- **Taking advantage of opportunities:** being positioned on technological and societal innovation when it is embedded in their business strategy allows companies to take advantage of the opportunities provided by the transitions we are currently experiencing.
- **Managing Risks:** re-internalising social and environmental externalities, which often takes the form of general management of sustainable development issues, limits risks introduced by these transitions.

This analysis structure gives equal importance to opportunities and risks. It is the primary prism through which we analyse sustainable development issues.

Targeted Issues

Our risk/opportunity analysis focuses on the elements most likely to have a tangible impact on the assets studied and on society in general. Additionally, the issues that economic agents face are very different depending on the sector, and can even vary within the same sector.

So, our analysis focuses on a limited number of issues adapted to the specificities of each asset.

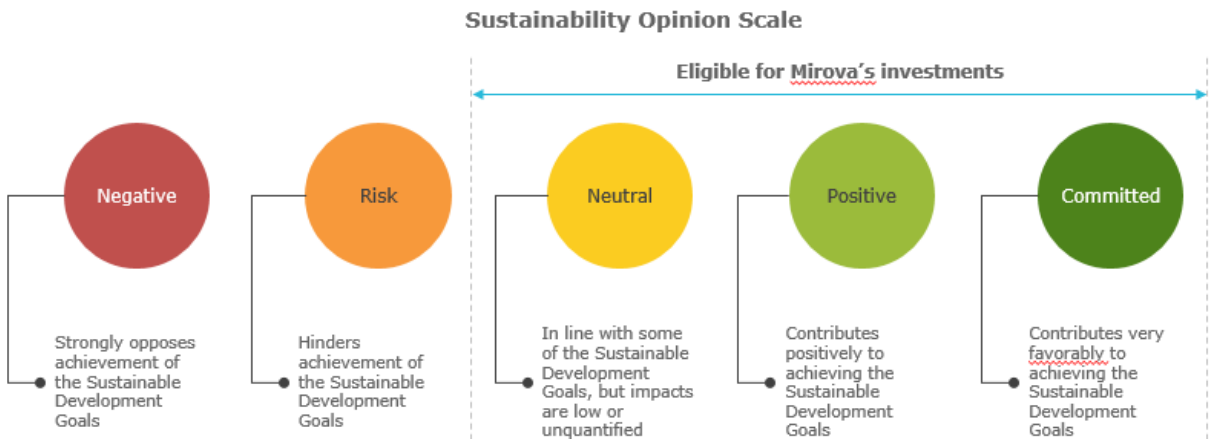
A Life Cycle Analysis

In order to identify the issues that could impact an asset, the analysis of environmental and social issues must consider the entire life cycle of products and services, from raw material extraction to end-of-life. For example, it is important to focus on work conditions for suppliers in the textile industry, whereas for automobile manufacturers, the focus should be more on energy consumption during product use.

A Qualitative and Absolute Assessment

The primary result of these analyses is an overall qualitative opinion on a five-tier scale. This score demonstrates how the asset performs in terms of sustainable development goals.

2*: Mirova's Sustainable Development Rating Scale*



Source: Mirova

This rating scale reflects the degree of achievement of the SDGs. Hence, no distribution of score is presupposed, neither overall nor per sector. Only assets with a rating of at least Neutral are eligible for Mirova's investments, and we prioritise top-rated assets. For example, in the energy sector, coal and oil extraction companies are rated Risk (non-eligible for investment), while renewable energy companies generally have positive ratings.

Evaluating Impact: Carbon as the First Indicator

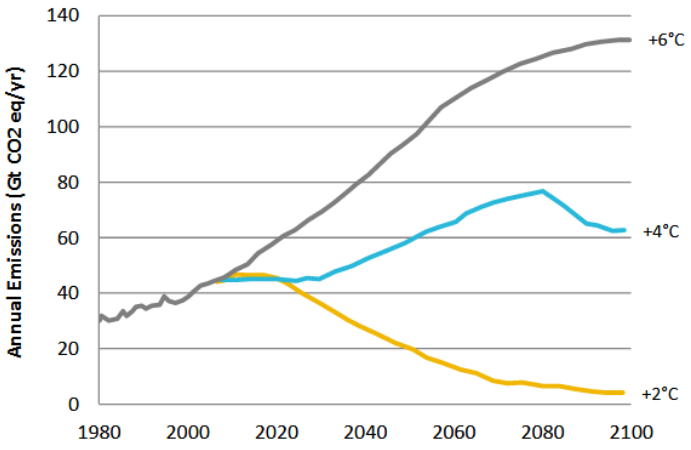
Today, in addition to qualitative ratings, physical indicators (tonnes of CO_2, m^3 of water, number of jobs, etc.) are more and more often requested to demonstrate the impact of a responsible investor's strategies.

Mirova, in meeting these expectations, developed a first physical indicator for carbon in partnership with Carbone4[1]. This methodology evaluates all assets using a life cycle approach, taking into account the company's direct activity as well as its suppliers and product use. In accordance with Mirova's philosophy, both risks and opportunities related to the energy transition are assessed. Emissions induced by the company are provided, in addition to emissions avoided compared to a reference scenario.

At the portfolio level, the aggregate emissions induced and avoided are taken into account in order to assign a level of alignment with climate scenarios published by international organisations such as the IPCC (Intergovernmental Panel on Climate Change) or the IEA (International Energy Agency).

- **2°C.** There is an international consensus to limit the global temperature rise to 2°C in order to avoid the worst effects of climate change. This scenario requires serious reductions in greenhouse gas emissions over the coming decades. The Paris Accord also mentions an even more ambitious scenario in which the global temperature rise is limited to 1.5°C.
- **4°C.** This 4°C increase scenario is the most likely result if the climate-related commitments currently established are respected.
- **6°C**. The 6°C scenario would have catastrophic consequences the world over. It is the most likely result if no change is made to current modes of production and consumption.

Figure 3: Emissions Scenarios



Source: Mirova / IPCC

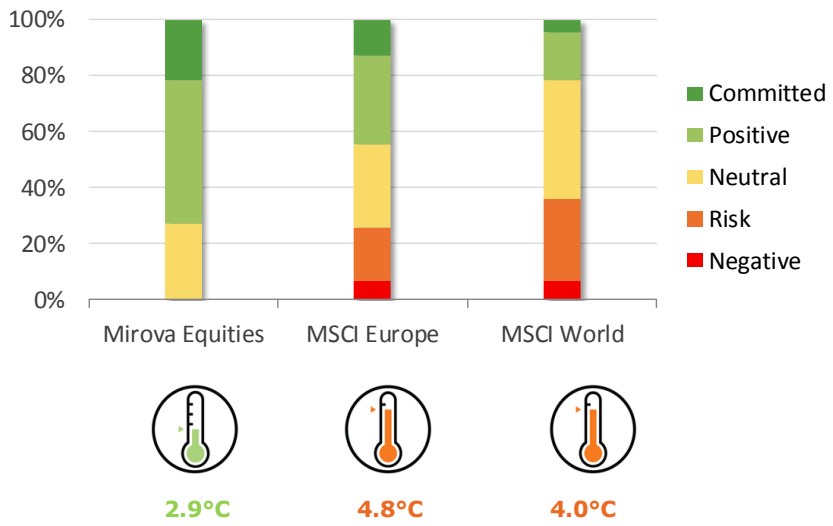
[1] *See our publication "Estimating Portfolio Coherence with Climate Scenario"*

2.2 Assessment by Asset Class

Listed Equities

The assessment of Mirova's equity strategy was conducted for all funds open to investors at the end of 2016: Mirova Euro Sustainable Equity, Mirova Europe Sustainable Equity, Impact ES Actions Europe, Insertion Emplois Dynamique, Mirova Europe Environmental Equity Fund, Mirova Europe Real Estate Securities Fund, and Mirova Global Sustainable Equity. These funds represent 2.4 Bn€ in assets under management as of 31/12/2016.

Figure 4: Mirova Equities
Distribution of Sustainable Development Opinions and Carbon Assessment as of 31/12/2016



	Mirova Equities	MSCI Europe	MSCI World
Induced emissions (tCO2/M€)	69	216	145
Avoided emissions (tCO2/M€)	-16	-14	-14
Taux de couverture	*100%*	*100%*	*99%*

	Mirova Equities	MSCI Europe	MSCI World
Committed	22%	*13%*	5%
Positive	51%	*31%*	17%
Neutral	27%	*30%*	42%
Risk	0%	*19%*	29%
Negative	0%	*7%*	7%
Total	**100.0%**	**100.0%**	**100.0%**
Coverage rate	*99%*	*100%*	*99%*

Source: Mirova

In accordance with their investment process, the Mirova Equity funds strongly favour companies providing solutions to sustainable development issues (73% *Positive* and *Committed* at the end of 2016 vs. 44% for the MSCI Europe Index and 22% for the MSCI World), without any asset in *Risk* or *Negative*.

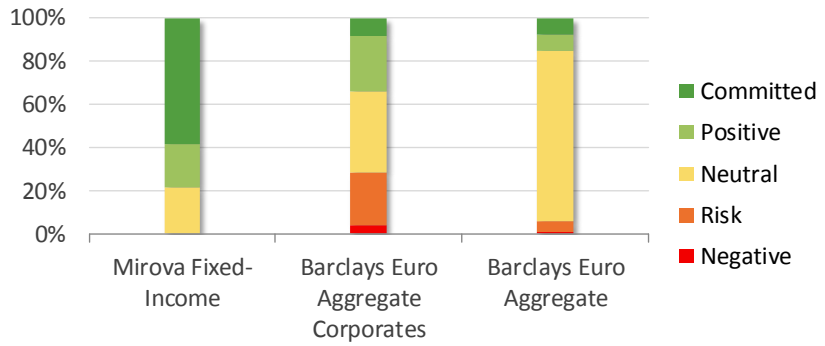
In terms of carbon, we estimate that Mirova's funds are overall compatible with a 2.9°C scenario as of the end of 2016. This climate profile is much better than that of the major market indices, which are more in line with a 4°C or 5°C scenario. This improved climate profile is a result of the lack of investment in companies that emit a lot of CO2 and significant investment in companies committed to a low carbon

economy. However, we have yet to attain the 2°C objective. New upstanding investment opportunities, both for the climate and the economy, should allow us to reach that goal in 2017.

Fixed-Income

The assessment of Mirova's fixed-income strategy was conducted for all funds open to investors at the end of 2016: Impact ES Oblig Euro, Mirova Euro Green And Sustainable Bond Fund, Mirova Euro Green And Sustainable Corporate Bond, Mirova Green Bond – Global. These funds represent 1.4 Bn€ in assets under management as of 31/12/2016.

Figure 5: Mirova Fixed-Income
Distribution of Sustainable Development Opinions and Carbon Assessment as of 31/12/2016[2]



	Mirova Fixed-Income	Barclays Euro Aggregate Corporates	Barclays Euro Aggregate
Sustainable Fixed-Income share	***55.4%***	***0.9%***	***0.5%***
	1.5°C	**4.4°C**	**4.1°C**

	Mirova Fixed-Income	Barclays Euro Aggregate Corporates	Barclays Euro Aggregate
Induced emissions (tCO2/M€)	115	184	173
Avoided emissions (tCO2/M€)	-162	-14	-21
Coverage rate	*100%*	*86%*	*56%*

	Mirova Fixed-Income	Barclays Euro Aggregate Corporates	Barclays Euro Aggregate
Committed	*58%*	*8%*	*8%*
Positive	*20%*	*26%*	*8%*
Neutral	*22%*	*37%*	*79%*
Risk	*0%*	*24%*	*5%*
Negative	*0%*	*4%*	*1%*
Total	**100%**	**100%**	**100%**
Coverage rate	*100%*	*92%*	*94%*

Source: Mirova

[2] *Mirova currently rates nearly all Sovereign issuers in the Eurozone as Neutral. This assessment explains the large portion of bonds rated Neutral in the Barclays Euro Aggregate index, which is comprised at 73% of sovereign issuers, agencies, and supranationals, 60% of which are sovereign issuers in the Eurozone. In order to improve our funds' environmental and social impact, our investments in these issuers (45% of our investments) are focused on sustainability bonds, currently mainly issued by agencies and supranationals.*

For all fixed-income strategies, Mirova chooses to primarily direct its investments (55% at the end of 2016) towards sustainable, green, and social bonds. This focus on projects that provide solutions to sustainable development issues is reflected in the assessment distribution, with nearly 80% of assets Positive or Committed, versus 30% for the Barclays Euro Aggregate Corporates index and about 15% for the Barclays Euro Aggregate index.

From a climate standpoint, the funds' strong involvement in green bonds (42%) mainly financing renewable energy or energy efficiency projects enhances their carbon impact. They are thus in line with the most ambitious climate scenarios, i.e. a 1.5°C scenario.

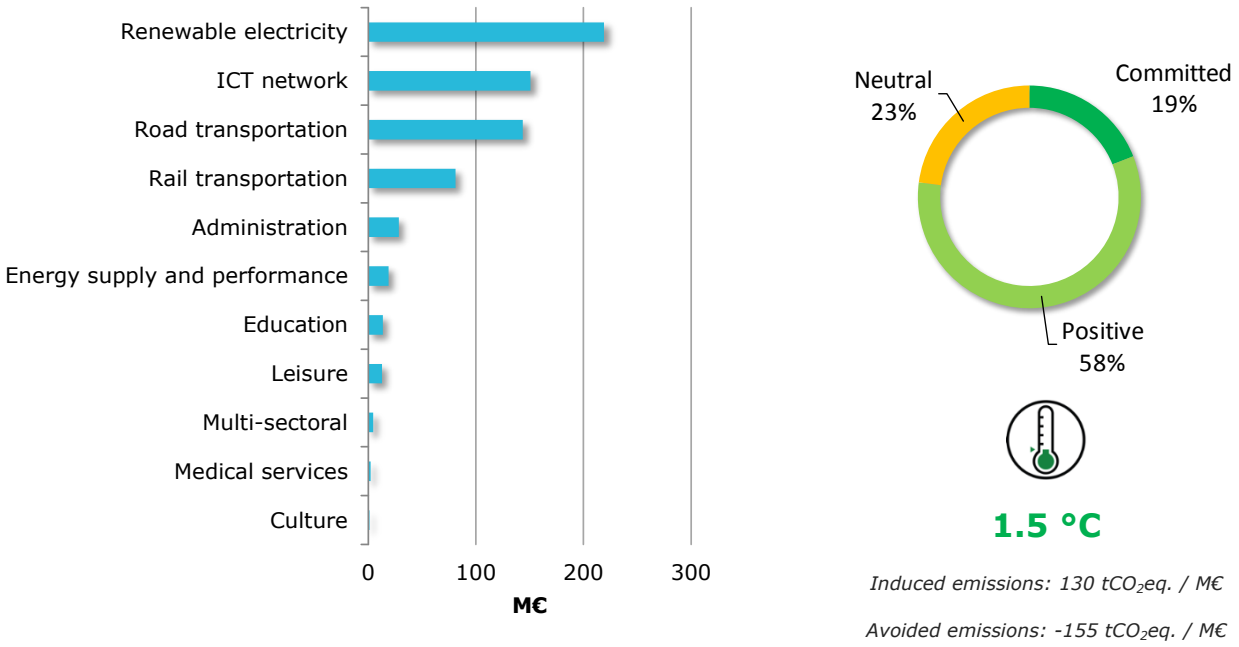
Infrastructure

The assessment of Mirova's infrastructure strategy was conducted for all investments made by the Infrastructure funds at the end of 2016:

- General infrastructure: BTP Impact Local (BTP IL), Mirova Core Infrastructure (MCIF), Fonds d'Investissement et de Développement des PPP 2 (FIDEPPP 2)
- Renewable energy infrastructure: EuroFideme 2, Mirova EuroFideme 3[3]

The amounts invested in projects at the end of 2016 totals to 676M€ of the 1.6Bn€ managed by the infrastructure funds.

Figure 5: Mirova Infrastructure - Classification by Project Type,
Distribution of Sustainable Development Opinions and Carbon Assessment as of 31/12/2016



Source: Mirova

About 75% of infrastructure investments are made in projects rated Positive or Committed for sustainable development issues. These are mostly renewable energy, access to information and communication technology, railway, energy efficiency, or education projects. The projects rated Neutral are usually road projects or administrative buildings whose infrastructures have more indirect environmental and social benefits, but that manage risks well.

In terms of carbon, the significant investments in renewable energy projects and the lack of investments in projects that emit a lot of CO2, enhance the infrastructure fund's global carbon impact, bringing it in line with the most ambitious climate scenarios, i.e. a 1.5°C scenario.

[3] *FIDEME : Fonds d'investissements de l'environnement et de la maîtrise de l'énergie*

3. Voting

3.1 Our Voting Policy

Our vision of the company relies on strong convictions different from the traditional, contractual view of the company developed starting in the 1970s.

The Search for Economic, Social and Environmental Value Creation

In our opinion, the classical notion that value created by a company is simply monetary wealth is outdated. Our global, interconnected, and open societies face a number of sustainability issues (climate change, depletion of non-renewable resources, food security, and rise of inequalities) which make social and environmental criteria key components of company value. To remain both cost-effective and sustainable, the company has to be transparent regrading this environmental and social value added on the long term.

A Partnership Vision of the Company

While shareholders effectively own the shares of the legal entity that is a company, it would be misguided to call them owners of the elements constituting a business, even more so for a project. A company is more than a contractual unit or financial valuation: it supports a project. To think otherwise would be overlooking the fact that a company is a place where innovation and value intersect, born of the participation of multiple stakeholders. These stakeholders are: the shareholders that provide financial support, of course, but they also support the company's project by placing trust in the company; the creditors (bankers and investors) provide most of the financial capital; the employees, whose involvement is increasingly fundamental in a competitive world where innovation has become a key factor for success; or even society as a whole, through the government and local communities providing infrastructure and ensuring a region's appeal; and clients and the general public making sure the company is socially accepted. The company's executives are more than mere implementers serving shareholders. As corporate officers, they support a collective action project above all. As such, corporate governance should be redefined to go beyond the paradigm of the theory of the agency, which is currently the main framework for good governance practices aimed at financial profitability for shareholders.

Taking Back Voting Issues

Finally, we believe that market infrastructure as it is today does not allow for the optimal exercise of investors' fiduciary responsibility. The increasing power of institutional investors in companies' capital at the end of the 1990s contributed to the emergence of a financial market capitalism that scattered shareholding. Moreover, legal obligations pertaining to voting rights of UCITS funds management companies contributed to the increase in volume and cost of voting for these institutional investors. To facilitate the exercise of voting rights, they looked to centralise the voting process, leading to frequent -sometimes systematic- "*standard*" votes from proxy advisors, who rely on a shareholder-focused view of the company and impose a standardised vision of governance practices.

This vision of the company has led us to rethink our good governance principles. As a responsible investor, Mirova's voting policy is dedicated to addressing the issues that companies are facing today, primarily those related to sustainable development. We particularly support:

- the creation of a Board whose composition reflects a balanced representation of all the company's stakeholders and takes CSR issues into account
- fair remuneration for stakeholders, taking into account environmental and social criteria for executives' compensation in particular
- the transparency and quality of financial and extra-financial information provided via the establishment of an integrated report that takes into account sustainability issues.

These principles also constitute the priority engagement focus that Mirova emphasises in its dialogue with issuers for the exercise of voting rights. We are aware that promoting this message on transformation of company governance will trigger legitimate debates which will improve our principles and methods on the long term.

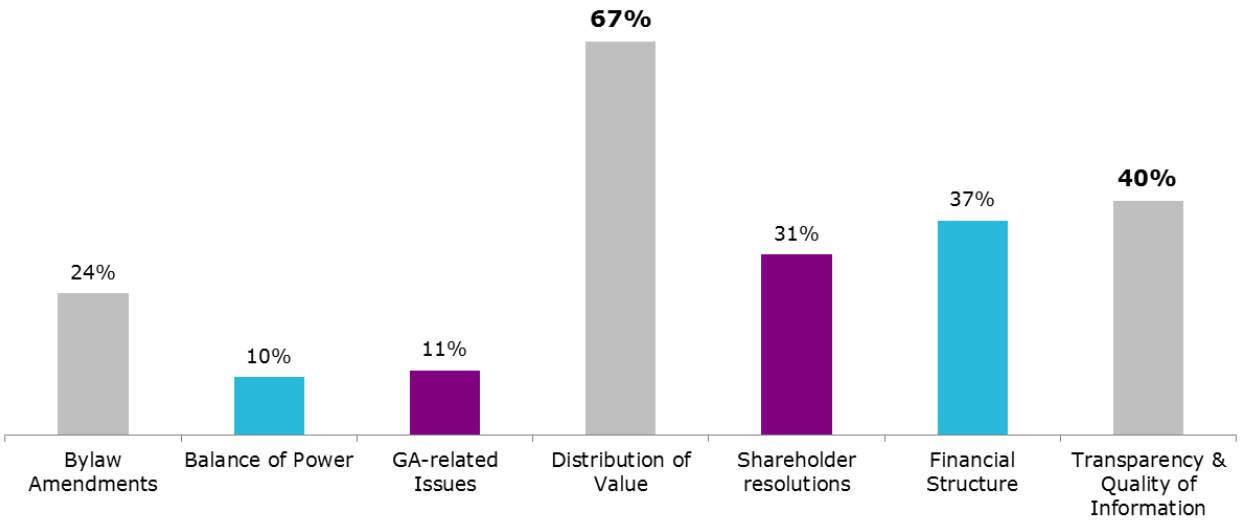
3.2 2016 Voting Report

The 2016 voting perimeter covered **215** assets held in 16 UCITS and AIF, all of which are managed by Mirova[4]. Our average opposition rate (votes "against" and "abstention") was **30%** in 2016.

Distribution of Votes by Theme

Opposition rates by theme are shown in Figure 7.

Figure 7: Opposition Rates by Theme



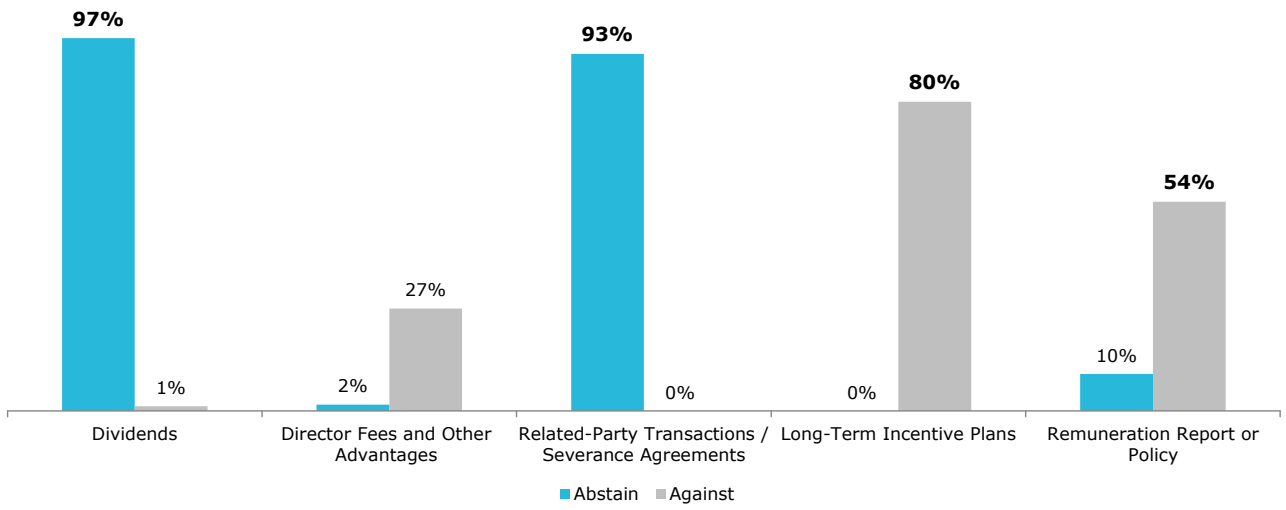
Source: Mirova

Distribution of Value resolutions face the highest opposition rate, in accordance with the focus of our voting policy.

The *Distribution of Value* category covers all resolutions concerning the remuneration of the various stakeholders that contribute to value creation within in a company: shareholders (dividends), employees (savings plans), and executives (compensation structures). This category also includes the remuneration paid to directors insofar as their wages can impact the good exercise of their responsibilities in the wider interest of the company and all its stakeholders.

[4] *The perimeter covers 6 dedicated funds and 10 open funds. (Impact Es Actions Europe, Insertion Emplois Dynamique, Mirova Euro Sustainable Equity, Mirova Europe Environmental Equity Fund Mirova Europe Real Estate Securities Fund, Mirova Europe Sustainable Equity,Mirova Global Sustainable Equity, Mirova US Global Sustainable Equity Fund, Mirova Global Transition Energy Equity Fund, Mirova Global Water & Agriculture Equity Fund).*

Figure 6: Distribution of Value - Opposition Rates Detailed



Source: Mirova

In terms of dividends and in accordance with our voting policy, Mirova generally questions the legitimacy of a specific stakeholder having a say in the remuneration of another, and thus chooses to abstain from resolutions on these principles of remuneration defined *ex ante*.

For resolutions on remuneration mechanisms and their implementation (remuneration reports and long-term initiative plans for management/employees), Mirova opposes those that do not include environmental and social performance criteria.

Distribution of Votes by Geographic Region

	For	in %	Against	in %	Abstention	in %	Total
America	513	73%	158	23%	37	5%	708
Asia	99	72%	32	24%	6	5%	137
Europe	1750	69%	599	24%	202	8%	2551
Total	2362	70%	789	23%	245	7%	3396

The opposition rate in Europe (32%) was slightly higher than that of America (28%) and Asia (32%), which can be explained by the fact that European companies proposed a wider range of subjects for shareholder voting. For example, Europe represented 84% of resolutions in the *Remuneration* theme and 86% of resolutions in the *Transparency of Information* theme, two subjects that are particularly opposed by Mirova.

4. Engagement

4.1 Our Engagement Approach

The analysis of ESG issues in the context of our investment process or General Assembly voting is accompanied by engagement with issuers and public authorities. Our investment strategy has two goals:

1. **Improve companies' products and practices from an environmental, social, and governance point of view**

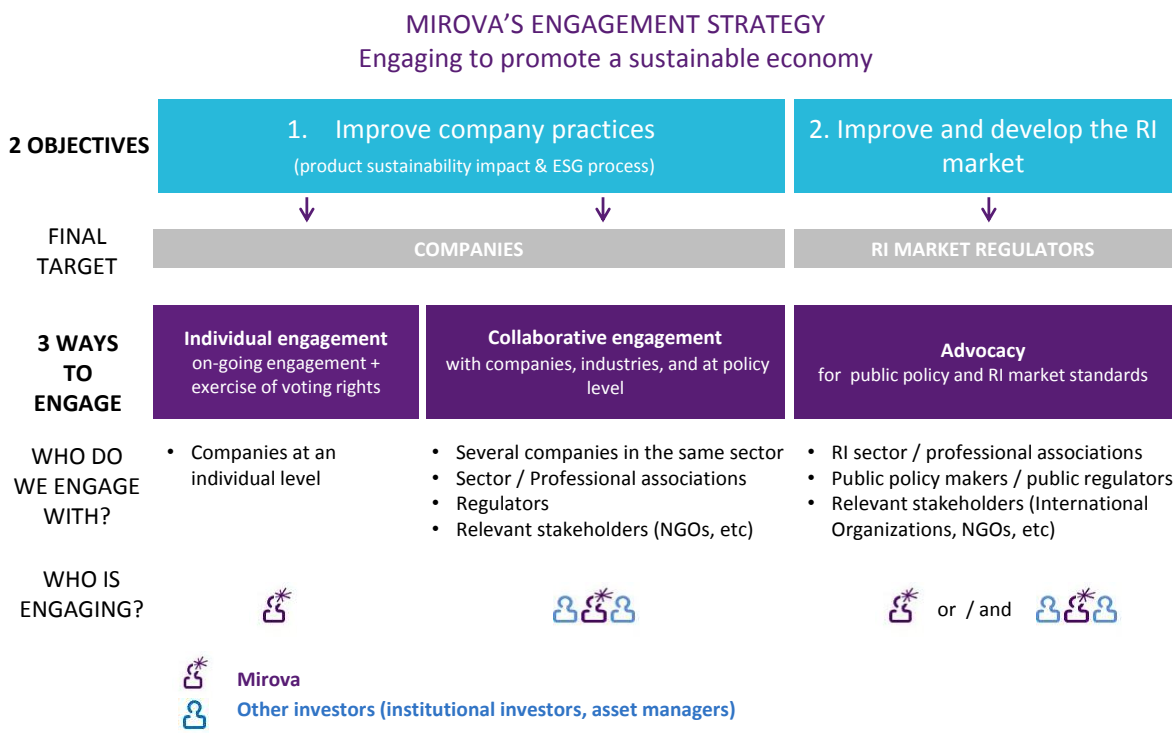
This goal is implemented through two types of engagement:

- Individual engagement: improving ESG practices of companies in the portfolio with continuous dialogue.
- Collaborative engagement: identifying controversial practices within an industry or group of companies and engaging in a dialogue to request increased transparency, and if needed a change in practices.

2. **Apply our investment vision to our own market in order to improve the financial sector's standards and regulations to encourage sustainable and long-term investment .**

Through its advocacy, Mirova is committed to promoting regulations (including legislative changes, standards, and labels) and financial market practices that encourage sustainable investment which, in turn, creates long-term value.

Figure 7: Illustration of Mirova's Engagement Strategy



RI: Responsible Investment

Source: Mirova

4.2 Major Results 2016

Individual Engagement

Individual engagement consists of dialogue with the companies most represented in Mirova's portfolios and that of its clients to encourage improvement in ESG practices. This dialogue is an integral part of Mirova's ESG analysis for all its asset classes: equity, fixed-income (with specific engagement for green and social bonds), and infrastructure. This dialogue is central to our ESG analysis and exercise of voting rights.

Figure 8: Key Engagement Figures

Listed Equities

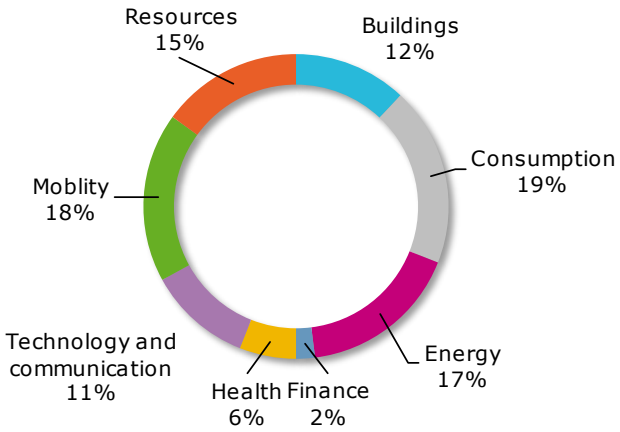
'196 targeted companies

319 meetings and contacts with targeted companies regarding key environmental, social, and governance issues.

2 transversal topics in 2016:

- improving the company's CSR governance

- carbon reporting



Voting

'82 companies targeted for engagement for the exercise of voting rights

Main engagement themes: responsibility and representativeness of governance bodies, balanced remuneration between the various stakeholders, taking environmental and social issues into account in governance.

Green and Social Bonds

'34 targeted issuers

Engagement conducted prior to a potential issue, during the issue, and after annual reporting on 4 main themes: use of proceeds, mitigation of ESG risks, quality of reporting, and impact measurement.

Responsible Infrastructure

'26 projects subject to engagement

Main engagement themes: environmental and social reporting, employment dynamics, building energy efficiency, supporting transport infrastructure for green mobility.

Collaborative Engagement

In collaborative engagement, controversial practices are identified at the industry level or for a group of companies, and a dialogue is opened to request greater transparency and changes in controversial practices if necessary. In order to increase responsible investors' level of influence, these actions are often undertaken by several investors united under a common goal. Engagement is conducted in phases until tangible results are obtained that can be monitored over time. Issuers are approached first, and then if it is deemed necessary, the process is expanded to the organisational or political level.

In 2014, Mirova launched its own collaborative engagement platform, which includes in-house experts and client representatives. The goal of this platform is to create a tool for influencing the most controversial practices of companies and financial market organisations through close interaction.

2 collaborative initiatives supported by Mirova's engagement platform

Oil Exploration In The Arctic	Working Conditions in the Supply Chain in Apparel and ICT Sectors
▸ Launched in 2014 to incite effective transparency. ▸ In 2016, Mirova and its partners published an investor statement to the Arctic Council, with the support of 18 investors representing 5000 billion euros in assets under management.	▸ Launched in 2014 to incite companies to implement higher levels of transparency in supply chain management. ▸ In 2016, Mirova joined the SAC to support the creation of a more responsible supply chain in the apparel sector. ▸ In 2016, Mirova joined the EICC, bringing together some of the sector's main players in order to further its engagement efforts.

Within this strategy, Mirova also supports collaborative initiatives put forward by other investors, in particular through the PRI.

Support for 11 collaborative initiatives proposed by investors

Active participation in 3 collaborative initiatives within the PRI (board nomination, fracking, human rights in the mining sector)

Advocacy

Mirova's main advocacy objectives for 2016-2018:

- Establish a market environment favourable to development of finance with a positive environmental and social impact through the promotion of sustainable finance
- Provide investors with the means to identify the needs and opportunities of sustainable investment through extra financial reporting, standardisation, and labels
- Remove obstacles and create tools for developing the sustainable investment market through reflections about product structuring issues, standardisation, labels, and incentives
- Strengthen sustainable investment's position in finance by integrating these contributions into broader reflections on the financial system and financial centres.

Overview of Advocacy in 2016

Developing Sustainable Finance

- Response to the European Commission consultation on sustainable and long-term investment
- Support for investor statements in favour of responsible investment in the context of fiduciary duty and fast implementation of the Paris Accord by G20 governments

Improving ESG Disclosure

- Response to the European Commission consultation on non-financial reporting
- Support for various advocacy letters and investor statements favouring ESG integration (letter to the Securities and Exchange Commission, investor statement favouring ESG integration into credit ratings)

Promoting Specific Initiatives

- Mirova coordinated a report for Paris Europlace, the Paris financial centre, with 15 propositions for launching the Paris Green and Sustainable Finance initiative
- Mirova candidature to the European Commission High-Lever Expert Group (HLEG) on sustainable finance

Supporting University Research on Sustainable Finance Institutions

- Financial support for the Energy and Prosperity Chair (ENS, Ecole Polytechnique, ENSAE ParisTech, Institut Louis Bachelier)
- Participation in the Cambridge Institute for Sustainability Leadership's reflections, especially regarding impact reporting

Publications

- Statement paper supporting financing of the UN Sustainable Development Goals

Supporting and Participating in RI Professional Organisations at the French, European, and International Level

Figure 11: Professional Organisation Membership

Source: Mirova

Conclusion

For Mirova, being a responsible investor means being aware that capital allocation is far from neutral and has major impacts on our economy, and thus on our society. It also means being aware that in a changing world, where new sustainable development challenges arise, the notion of value has to be reinvented. It is in this way that we can move beyond today's limited and damaging vision in which all is interchangeable and is measured only according to its worth as financial capital. Rather, the three dimensions of capital must be taken into account: environmental, human, and financial, and each of these aspects must be preserved. Sustainable growth in human and financial capital is no longer possible with continued alterations to environmental capital. Now more than ever, it is important to keep in mind that financial capital can only develop in a thriving society. Our role is to mobilise the financial capital brought to us by our clients to bring them lasting solutions. To this end, all of our investment strategies aim at creating financial, social, and environmental value. At the same time, our contribution to financing the economy puts us in a position to observe the development of technical, organisational, and human initiatives and solutions seeking to respond to sustainable development issues. With our financial support, we favour successful solutions that will ensure the necessary conditions for maintaining long-term yield and generating higher income than was possible in the old economy on our investment horizons.

Our challenging vision of responsible investment is thus the best suited to fulfil investors' expectations, at least for those who think that *Take the Money and Run* is a good movie, but bad advice.

Legal Information

This document is intended for Professional clients only in accordance with MIFID. If no and you receive this document sent in error, please destroy it and indicate this breach to Mirova.

Products and services do not take into account any particular investment objectives, financial situation nor specific need. Mirova will not be held liable for any financial loss or decision taken or not taken on the basis of the information disclosed in this document, nor for any use that a third party might make of this information. This document in no way constitutes an advice service, in particular an investment advice.

This document is a non-contractual document and serves for information purpose only. This document is strictly confidential and it may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written consent of Mirova. This document may not be used in some jurisdictions where such offers or promotions have not been authorized by the competent authorities. Each investor must ensure he complies with these requirements and prohibitions.

No information contained in this document may be interpreted as being contractual in any way. Information contained in this document is based on present circumstances, intentions and beliefs and may require subsequent modifications. No responsibility or liability is accepted by Mirova towards any person for errors, misstatements or omissions in this document or, concerning any other such information or materials, for the adequacy, accuracy, completeness or reasonableness of such information. While the information contained in this Document is believed to be accurate, Mirova expressly disclaims any and all liability for any representations, expressed or implied, with respect to this Document or any other written or oral communication to any interested party in the course of the preparation of information concerning the Fund. Prices, margins and fees are deemed to be indicative only and are subject to changes at any time depending on, inter alia, market conditions. Mirova reserves the right to modify any information contained in this document at any time without notice. More generally, Mirova, its parents, its subsidiaries, its reference shareholders, the funds Mirova manages and its directors, its officers and partners, its employees, its representative, its agents or its relevant boards will not be held liable on the basis of the information disclosed in this document, nor for any use that a third party might make of this information. This document has been created and prepared by Mirova based on sources it considers to be reliable. However, Mirova does not guarantee the accuracy, adequacy or completeness of information obtained from external sources included in this document.

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.

In the E.U. (outside of the UK): Provided by NGAM S.A. or one of its branch offices listed below. NGAM 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 NGAM S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. France: NGAM Distribution (n.509 471 173 RCS Paris). Registered office: 21 quai d'Austerlitz, 75013 Paris. Italy: NGAM 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: NGAM S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: NGAM, Nederlands filiaal (Registration number 50774670). Registered office: World Trade Center Amsterdam, Strawinskylaan 1259, D-Tower, Floor 12, 1077 XX Amsterdam, the Netherlands. Sweden: NGAM, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: NGAM, Sucursal en España. Registered office: Torre Colon II - Plaza Colon, 2 - 28046 Madrid, Spain.

In Switzerland: Provided for information purposes only by NGAM, 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 NGAM 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 to 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: NGAM UK Limited, One Carter Lane, London, EC4V 5ER.

In the DIFC: Provided in and from the DIFC financial district by NGAM Middle East, a branch of NGAM UK Limited, 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 Asset Management Japan Co., 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: 2-2-3 Uchisaiwaicho, Chiyoda-ku, Tokyo.

In Taiwan: Provided by NGAM Securities Investment Consulting 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 2012 FSC SICE No. 039, Tel. +886 2 2784 5777.

In Singapore: Provided by NGAM Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. NGAM Singapore is a division of Natixis Asset Management Asia Limited (company registration no. 199801044D). Registered address of NGAM Singapore: 10 Collyer Quay, #14-07/08 Ocean Financial Centre, Singapore 049315.

In Hong Kong: Provided by NGAM Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by NGAM 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. NGAM Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by NGAM S.A.

In Chile: Esta oferta privada se acoge a la Norma de Carácter General N°336 de la SVS de Chile.

In Uruguay: Provided by NGAM 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 NGAM 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 NGAM Mexico, S. de R.L. de C.V., which is not a regulated financial entity with the Comisión Nacional Bancaria y de Valores or any other Mexican authority. Any products, services or investments referred to herein are rendered exclusively outside of Mexico.

The above referenced entities are business development units of Natixis Global Asset Management, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Global Asset Management 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 Global Asset Management 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
French Public Limited liability company with board of Directors
Regulated by AMF under n°GP 02-014
RCS Paris n°394 648 216
Registered Office: 21 quai d'Austerlitz – 75 013 Paris - Tel.: +33 (0)1 78 40 80 00
Mirova is a subsidiary of Natixis Asset Management.

NATIXIS ASSET MANAGEMENT, S.A.
Limited liability company
Regulated by AMF under n°GP 90-009
RCS Paris n°329 450 738
Registered Office: 21 quai d'Austerlitz – 75 634 Paris Cedex 13 Tel. +33178408000

NATIXIS ASSET MANAGEMENT U.S., LLC
399 Boylston Street, Boston, MA 02116; Tel: 212-632-2800
Natixis Asset Management U.S, LLC (Natixis AM U.S.) is a U.S.- based investment advisor that is majority-owned by Natixis Asset Management, S.A. (Natixis AM) and minority-owned by Mirova. Mirova is operated in the U.S. through Natixis AM US. Natixis AM US and Mirova entered into an agreement whereby Mirova provides Natixis AM US investment and research expertise, which Natixis AM US then combines with its own expertise, and services from Natixis Asset Management when providing advice to clients. The Natixis Asset Management organization includes Natixis AM, a Paris-based asset manager and Natixis AM U.S., a Boston-based investment adviser.