Introduction
Meeting today’s environmental and social challenges will require more than just repackaging old ideas. At Mirova, we believe in making thoughtful choices that reflect a new, more sustainable economic model – one that prioritizes natural resources, people, and innovation over the long term.

Mirova believes in action. We believe there are opportunities associated with long-term sustainability, and that markets can underappreciate the growth potential inherent in ongoing demographic, technological, environmental, and governance transitions. A growing middle class in Asia, diminishing populations in developed countries, and increasing global demand for high-quality, affordable healthcare indicate economic tailwinds for companies looking to provide solutions to these challenges. Growing international consensus around the need for more aggressive efforts to fight climate change suggest positive long-term prospects for companies working to reduce the carbon intensity of the global economy.

Materiality on Financials & Sustainable Development

“...we can point to instances when a lack of integrity has bankrupted entire companies, in sectors as different as finance, telecommunications, manufacturing, and energy.”
– Rex Tillerson, ex-CEO of ExxonMobil, 69th US Secretary of State

Within responsible investing, materiality can take two forms: financial materiality – how intangible environmental, social, and governance factors can affect a company’s value – and materiality on the Sustainable Development Goals (SDGs) – how relevant a company’s activities are for contributing to or obstructing the 17 Sustainable Development Goals defined by the UN. Mirova believes both are important. We ask ourselves not only what ESG issues could do to our portfolio, but also what our portfolios can do for society and the environment.

Information is the currency of financial markets. Both voluntarily and in response to regulation, companies are disclosing more and more non-financial data. The internet has made information more widely accessible and provides investors with a constant stream of news from across the globe. Now, instead of being limited to financial regulatory filings, investors have a broader set of information before them – information that can provide valuable new insights, should they devote time and resources to analyzing and understanding it.
Composite sustainability scores, for example, are now widely available. They attempt to sum a company’s overall ESG performance into a single number, based on application of scores and weights over a fixed set of indicators. While these scores have the advantage of convenience, they can fail to capture the complexity of non-financial information. Most are focused on risk management in company processes, ignoring a company’s products and its supply chain. When a single evaluation framework is applied across all sectors, differences in material factors are often neglected too. Greenhouse gas emissions, for example, are certainly material (both financially and to the SDGs) for utilities, but far less so for cosmetics companies.

Financial outperformance while creating positive environmental and social impact. Our ESG Research Team comprises 10 specialists, 8 of which are dedicated to specific sectors. The team focuses exclusively on analyzing companies’ ESG performance in the context of their sector, regulatory environment, local and global trends, and more.

Mirova is currently in the process of publishing its materiality and impact analysis frameworks at the sub-sector level. These serve as detailed guides to the way we look at ESG issues, including the quantitative indicators used as inputs, materiality assessments, and statistics on our investment universe. By examining both opportunities and risks in detail, these frameworks elucidate how we seek to improve the risk-return profile of our investment products. Considering non-financial data in our fundamental analysis allows us to identify opportunities related to the long-term sustainability and economic transitions affecting the world, and to avoid reputational, regulatory, and climate risks.

**Risks and Opportunities in the Anthropocene**

“Your business model, it should create value and be good to society... if it hurts the environment, it’s not good for society, so just don’t do it.”

– Jack Ma, co-founder of Alibaba

The global energy system must change to either stave off or adapt to climate change. Should we fail to limit temperature rise to 2°C or less, climate change will almost certainly wreak global havoc and lead to vast costs, undoing centuries of advances brought about by free markets and free society. To mitigate the costs and impacts of climate change, we have no choice but to reduce emissions as quickly as possible while building resilience in the areas that will be affected.

As it pertains to investing, Mirova is convinced that a comprehensive carbon footprinting method – considering both lifecycle and avoided emissions – is the most efficient way to build investment portfolios that work to reduce climate risks.

In general, only two main types of data are available to investors: direct emissions from fossil fuels burned on company premises (“Scope 1” emissions) and emissions from electricity/heat purchased (“Scope 2”). These types of emissions do not count lifecycle emissions (“Scope 3”) – raw material extraction, transportation, use of products, and disposal – which can be the main sources of climate impacts in some sectors. For example, about 85% of oil and gas companies’ climate impacts are indirect, related to the use of their products rather than their extraction processes.

Mirova believes that ignoring indirect lifecycle emissions can lead to misrepresentation of climate risks and opportunities, limiting the ability of investors to use climate data to add value in the investment process and produce honest reporting.

Much market data often does not include emissions savings, or the lifecycle emissions avoided by a company’s products and activities relative to a baseline. Without considering emissions savings, lifecycle data indicates a cosmetics company and a wind turbine manufacturer emit the same amount of carbon dioxide per unit invested. This obscures the high climate benefit of the wind turbine manufacturer relative to the cosmetics company, again limiting use potential in the investment process.

Unsatisfied with the market offering, Mirova created a partnership in 2015 with Carbon4, a French consultant specializing in climate strategy. Using a method co-developed through this partnership, Carbon4 calculates the emissions arising from a company’s products and activities on a lifecycle basis as well as the lifecycle emissions saved relative to a pertinent baseline. We believe this leads to more complete data, company by company, and paints a comprehensive picture of the role each plays in the transition to a low-carbon economy.

Mirova systematically uses this data to analyze the climate opportunity and risk exposure of companies and portfolios across all its products, further contextualizing by aligning portfolio emissions with climate scenarios. Over the last two years, we have improved the climate impact of our consolidated equity portfolios from a “business-as-usual” scenario to one that spells a far healthier – and arguably less risky – future for the planet, and one that is in line with international greenhouse gas emission objectives.

We have also used our carbon footprinting approach to develop a series of Carbon Neutral funds, which present an index-based approach to reducing climate risk in portfolios. These funds seek to reduce induced emissions by a factor of 5.5 relative to the market index, representing the needed cuts recommended by international objectives. It then balances induced and avoided emissions for overall carbon neutrality.

Mirova believes this strategy serves as a proof point to our overarching philosophy. While managed to a de minimis tracking error, the Carbon Neutral strategy pulls away from
the underlying index, as it is not hampered by the soon-to-be anachronistic traditional energy industry. We believe that investors that maintain exposure to fossil fuel do so hubristically, waiting for the sector to recouple to the rest of the economy.

<table>
<thead>
<tr>
<th>Mirova Carbon Neutral Composite Returns (as of 2/28/20)*</th>
<th>1 Month</th>
<th>Year to Date</th>
<th>Trailing 3 Months</th>
<th>Trailing 1 Year</th>
<th>Trailing 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mirova Carbon Neutral (Gross)</td>
<td>-7.7</td>
<td>-8.12</td>
<td>-5.9</td>
<td>8.52</td>
<td>11.96</td>
</tr>
<tr>
<td>Mirova Carbon Neutral (Net 3%)</td>
<td>-7.95</td>
<td>-8.59</td>
<td>-6.61</td>
<td>5.33</td>
<td>8.68</td>
</tr>
<tr>
<td>S&amp;P 500 TR USD</td>
<td>-8.23</td>
<td>-8.27</td>
<td>-5.5</td>
<td>8.19</td>
<td>9.87</td>
</tr>
</tbody>
</table>

**Cultivating Gender Diversity in Leadership**

“I believe in creating a workplace where a deep sense of justice underpins everything we do.”
– Travis Kalanick, co-founder of Uber

Recent years have seen progress towards gender equality. There is growing consensus that educating and employing larger numbers of women is socially beneficial and can lead to greater economic growth.

While quota systems have been implemented in several countries, they tend to address the share of women on corporate boards. But because the board’s role is to supervise a company rather than manage it, they are not able to change a company’s culture directly. Mirova believes that addressing the number of women in executive management positions is thus a more effective way to increase gender diversity. However, many women still face challenges in finding paths to advance in the workplace. Increasing the number of women in top-level management positions can contribute to a positive spill-over effect, creating change in the company’s culture and fostering broader diversity.

Research also suggests that greater gender diversity in leadership positions (i.e. within the executive management committee) leads to better operational performance, profitability, and returns. A study by the Peterson Institute for International Economics suggested that having 30% women in corporate leadership positions can be associated with a one percent increase in net margin, equivalent to a 15% rise in profitability. Companies with higher proportions of women in executive leadership also offer a 15% higher dividend payout and better share price performance over time, according to the Credit Suisse Research Institute.

In short, increased gender diversity, especially in senior management, can have positive financial impacts and create social good. Mirova has therefore defined a set of objective criteria for measuring companies’ commitment to empowering women:
- High (>30%) percentage of women in the executive committee
- One or more women in C-suite level positions (CEO, CFO, etc.)
- Balance (<15% difference) between the share of women in executive management and the share of women in the company’s overall workforce
- Qualitative criteria, including transparency around the gender pay gap, measures to improve work-life balance, commitments of senior role models to gender diversity, and leadership training dedicated to “high-potential” women

* The securities holdings of the composite may differ materially from those of the index used for comparative purposes. It is not possible to invest in an index. * Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Performance reflects the reinvestment of dividends and other earnings. Please see page 4 for important disclosures and performance information about the Mirova Carbon Neutral Strategy.

Given its strong correlation with improved financial performance, all Mirova’s equity strategies are now using these criteria to supplement fundamental analysis in the investment process.

The Mirova Women in Leadership Equity Strategy, launched in April 2019, goes a step further. It places women’s empowerment at the core of its approach, investing exclusively in companies that fulfill two or more of our gender diversity criteria. Applying these criteria alone does not provide a guarantee of performance or adherence to Mirova’s sustainability-driven approach. However, the Women in Leadership Strategy remains actively managed and conviction-based.

**Conclusion**

Many asset managers claim to believe in the usefulness of non-financial information, but few have taken meaningful action. At Mirova, it is a central part of our philosophy and investment processes. Our dedicated ESG research team nearly matches the size of our investment team. We produce in-house research that goes beyond convenient metrics, including the incorporation of a company’s exposure to risks and opportunities over its entire value chain. We leverage the information advantage generated by developing a thorough and comprehensive approach to sustainable development issues.

Mirova sets itself apart through our commitment to do more than just “talk the talk” on ESG. By putting ESG at the core of our philosophy and activities, we take action. The use of non-financial information to seek out an information advantage is at the heart of our value proposition, combining financial outperformance and positive environmental and social impact.

From climate change to gender equality, our work has focused on indicators that are in line with our philosophy and useful in the investment process.

Mirova seeks to apply its research insights as fully as possible, by applying the same responsible investment policies across 100% of our products, no matter the asset class. We seek to be leaders in responsible investment, eschewing superficial indicators and methods. Instead, we develop, refine, and apply approaches that make a difference.
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