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INVESTMENT MANAGERS

Under New Management in a Fast-Changing World

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Investing in sustainability

By Nathalie Wallace, Head of ESG Strategy and Development
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We have now marked the inauguration of President Biden and Vice President Harris as the new executive team in the US. At a time when the world faces great uncertainties, with millions suffering from the impact of the pandemic as well as economic and social inequalities, we expect this new administration to have a greater focus on sustainable economic development. On his first day in office, Joe Biden moved to rejoin the Paris climate agreements.

The US administration faces daunting challenges. Beneath the surface of the 2020 upheavals, there are tectonic shifts at play in demographics, technology, and climate patterns that are changing the relative prices of labor, energy, goods and services, and destabilizing the social construct under which we have operated since the Industrial Revolution. And this is not only a developed world phenomenon.

These powerful global trends are eroding legacy business models imperceptibly – until they become crystal clear. For companies that are not prepared or agile enough to adapt, valuations will be impacted. Consider the example of Exxon. After briefly becoming the most valuable company in the world in the second quarter of 2013, Exxon was booted out of the S&P 500® in 2020.

Far-reaching trends

Even before the pandemic, trends such as cloud computing, artificial intelligence, clean technology, new consumption, and evolving work habits were already reshaping conversations in boardrooms. Driven in part by environmentally and socially conscious Millennials and an aging population, these changes have jolted industries as diverse as healthcare, telecommunications, car manufacturing, electricity generation, real estate and infrastructure. Under the new construct, where all stakeholders are considered, the corporate license to operate is being reevaluated. As economies and societies transition, investors need to prepare for the inevitable policy responses, as we see in Europe, Asia and now in the US, and adapt to the reshaping of finance and repricing of assets.

The pandemic has highlighted the importance of resilient business models to weather short-term market dislocation. In addition to discerning the impact of tectonic shifts, successful investors will benefit from identifying long-term macroeconomic trends and upcoming government policies related to social inequality and climate change. Specifically, as the US reenters the Paris Agreement with the determination to regain leadership on combatting climate change, investors should be factoring in:

- The decarbonization of the US power sector by 2035
- The installation of 500,000 electric vehicle charging stations nationwide by 2030 as well as growing incentives for the purchase of electric vehicles
- The prohibition of fossil fuel subsidies domestically and prohibiting US public institutions from investing in international coal plants and high-carbon fossil fuel energy projects

(Continued)

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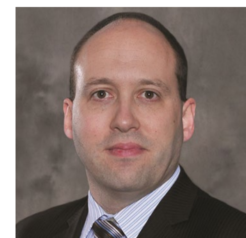
Ms. Wallace is Head of ESG Strategy & Development at Mirova. Ms. Wallace earned her bachelor's degree at the Institut Supérieur de Gestion Business School in Paris, France and is a Certified International Investment Analyst (CIIA). She served as French Foreign Trade Advisor from 2014 to 2020 and is a member of the CFA Institute's ESG Technical Committee.



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Mr. Peers is the CEO and CIO of Mirova US, an investment manager dedicated to sustainable investing through a conviction-driven approach. Mr. Peers holds a master's degree in applied economics from the University of Antwerp, Belgium. He also is a CFA® charterholder and is a certified CEFA (Certified European Financial Analyst of the BVFA-ABAF – Belgian Association of Financial Analysts).

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Far-reaching trends (continued)

- The building of a resilient infrastructure with the Rural Energy for America Program
- Reducing by 50% the carbon footprint of the building stock by 2035, while establishing strict efficiency standards for new construction
- Establishing a working group that determines the "social cost of carbon" and other greenhouse gas emissions

Adapting to new risks

New tools and frameworks are needed to assess the impact of carbon emission pricing, be it through cap-and-trade mechanisms or voluntary carbon emission markets as envisioned by Mark Carney, ex-governor of the Bank of England. Techniques will also need to be developed to estimate the physical risks of climate change on flood-prone properties and manufacturing capacities, desertification of farm lands, or fire-prone urban development. Investors should assess their risks of holding potentially stranded assets – whether it be an oil field or an internal combustion engine – at a time when the world is transitioning to a lower carbon economy.

As McKinsey & Company recently pointed out, all corporations should be seizing "the moment to decarbonize, in particular by prioritizing the retirement of economically marginal, carbon-intensive assets."[2] Equally, countries and companies that put innovative strategies in place to transition to a clean energy economy will be amply rewarded, which is why we are already seeing a global race to the top. Investors will increasingly benefit from positioning their portfolios towards the companies that contribute to and are aligned with a changing world.

MIROVA

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1 Mirova, an asset management company indirectly and wholly owned by Natixis Investment Managers since 2014 and previously a division of Natixis Investment Managers International, benefits from around 30 years of experience in Environmental, Social, Governance (ESG) investing through Natixis Investment Managers International.

2 https://www.mckinsey.com/business-functions/sustainability/our-insights/addressing-climate-change-in-a-post-pandemic-world#

3 Assets under management ("AUM") as of September 30, 2020. AUM, as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of non-regulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.

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Exp. 1/31/2022
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