Mirova Global Sustainable Equity Fund

mirova
Investing in sustainability

QUARTERLY PORTFOLIO COMMENTARY

Market environment

2022 started out as a volatile year and the second quarter was no exception, with equity markets experiencing another significant down quarter and the big stock market averages like the S&P 500 finishing their worst first halves in decades. Interest rates, inflation, continued labor shortages, the Russia/Ukraine conflict and supply chain issues continued to weigh on global stock markets, although the peak inflation narrative began to gain traction after US inflation readings for April and May showed possible signs of easing. While strong labor markets and high household savings levels remain supportive, Central Banks face the substantial challenge of taming what is still very high inflation without tipping economies into a recession. While the strategy outperformed the MSCI World Index in the second quarter, many of the drivers of fourth quarter 2021 and first quarter 2022 underperformance for the strategy continued through the second quarter. The traditional Energy sector continued to be the best-performing sector year-to-date by a longshot and outperformed in the second quarter. The portfolio's lack of traditional Energy exposure was a main detractor from relative performance for the quarter. However, the Energy sector started to see a bit of a reversal in June as the price of oil (WTI) came in from over $120/bbl in early June to around $105/bbl by the end of the month, driven by demand and recession fears. Additionally, long-duration, growth-oriented stocks continued to underperform in a rising interest rate environment. The strategy's focus on long-term secular trends often results in a growth bias to the portfolio and many longer-duration stocks in the portfolio have sold off sharply as a result. Aside from traditional Energy, the sectors that held up better than others during the quarter included the more defensive Health Care and Utilities sectors, which the portfolio is overweight, and Consumer Staples sector, which the portfolio is underweight, although that is partially offset by exposure in the Materials sector tied to Staples (natural food ingredients). As the team expects market volatility to continue in the near term until there is a higher level of visibility on the economic effect of sanctions on Russia, the potential for conflict escalation, the persistence of high inflation, interest rate increases, and underlying economic growth, they will look to take advantage of disconnects between current stock prices and long-term value of companies and will continue to focus on high-quality companies well positioned to address long-term secular trends.

Fund performance

Over the second quarter of 2022, the Mirova Global Sustainable Equity Fund – Class Y outperformed the MSCI World Index (Net) by 1.08%. The Fund fell -15.11% compared to -16.19% for the index.

The main driver of the outperformance in the second quarter was stock selection. While overweights to certain defensive sectors aided relative results, the relative impact from GICS sector positioning was muted overall. From a factor perspective, quality, a structural factor bias in the portfolio, held up slightly better than the broad market.

By GICS sector

The portfolio's overweights to the more defensive Health Care and Utilities sectors aided relative results during the quarter. Within the Health Care sector, Novo Nordisk and Eli Lilly, two global leaders in diabetes and obesity therapies, performed well during the quarter and also contributed strongly to relative performance, as both companies delivered strong first-quarter results. An underweight to Consumer Staples, another defensive sector, was the main relative detractor. However, certain portfolio holdings in the Materials sector tied to Staples (e.g., natural food ingredients supplier Symrise) performed well, somewhat offsetting the underweight to Staples. Within Materials, not owning the more cyclical metals & mining companies was also additive. The lack of exposure to the traditional GICS Energy sector continued to be a drag for the quarter, although that started to ease in June. Security selection within the Information Technology sector was a contributor to relative performance due partly to what the portfolio has exposure to and partly to what it doesn't have exposure to. Not owning Apple, which holds a ~5% weight in the index and was down more than the broad index for the quarter, was helpful to relative results. Additionally, within IT, portfolio holdings Mastercard and Visa (exposed to the digitalization of payments theme) were additive to relative results. Both Mastercard and Visa issued strong results for the first quarter thanks to strong growth in payments and cross-border transaction volumes and both stocks held up better than the broader, beaten down IT sector.

By Mirova sectors

The main contributor to relative performance by Mirova sector was sector allocation impact, driven by the portfolio's overweight to the Health sector, the best-performing Mirova sector for the quarter. Within the Health sector, Novo Nordisk and Eli Lilly, two global leaders in diabetes and obesity therapies, performed well during the quarter and also contributed strongly to relative performance, as both companies delivered strong first-quarter results. Security selection within the Resources sector was a top contributor to relative results as well, driven by outperformance from Symrise (natural food ingredients supplier). Within Resources, not owning the more cyclical metals & mining companies was also additive. The portfolio's underweight to the Information and Communications Technology (ICT) sector was additive as the sector overall underperformed the broad index. However, security selection within ICT was the largest relative detractor. While not owning Apple, which holds a ~5% weight in the index and was down more than the broad index for the quarter, was additive, portfolio holdings NVIDIA and MercadoLibre underperformed the broad index, dragging on relative results. Security selection within the Mirova Energy sector was a drag as portfolio holding Vestas Wind Systems (Danish wind turbine producer) underperformed and the portfolio does not have exposure to traditional oil & gas companies, which were largely positive during the quarter. Vestas posted first-quarter losses and lowered full-year guidance mainly due to the strain from the Russia/Ukraine conflict and continued transportation and supply chain challenges. While there may be short-term headwinds for companies like Vestas, the long-term outlook for growth in demand for wind energy continues to be strong. Our conviction in the transition away from fossil fuels, if anything, was strengthened as a result of the Russia/Ukraine conflict as the need for Europe to move toward energy independence was reinforced and alternative energy will need to be a part of that.

By position

The best-performing position in the portfolio during the second quarter was Eli Lilly, a global leader in diabetes and obesity, oncology, and other therapies, as the company reported first-quarter earnings that beat analyst estimates and showed promising late-stage clinical trial results for its obesity drug Tirzepatide. Treatment for obesity continues to be a large unmet need, with around 630 million obese people globally and very few being treated today. AIA Group was the second best-performing position, benefitting from positive COVID developments and new license approval in China, one of its key markets, in the last half of the quarter. Verizon was the third best-performing position during the quarter, delivering solid first-quarter results with a slight earnings beat and higher business subscriber growth. There was also positive sentiment following the company's May price increase announcement.

Despite a strong first-quarter earnings release in May, the worst-performing stock in the portfolio for the quarter was MercadoLibre. The stock faces a challenging backdrop with uncertainty around consumer spending, higher interest rates and inflation. Nursing and retirement home provider, Orpea, was the second worst-performing holding. Orpea is the subject of a book published in early 2022 that accuses the company of mistreating its residents and misusing government funds. Mirova has been very active in engaging with the company since the revelations came to light, with the next milestone being the company's annual general meeting at the end of July 2022 where the team will seek updates on the company's actions in response to the scandal from the new management team. Among targeted areas of improvement, Mirova has requested that Orpea become a "société à mission", or mission-driven company, a French legal definition that allows corporations to incorporate social and environmental goals in their corporate goals. More information about Orpea and Mirova's response is available upon request. Finally, NVIDIA was the third worst-performing holding, which fell in tandem with the broader tech sector and growth-oriented stocks in a rising rate environment and on concerns on the supply uncertainty of one key semiconductor material, neon gas, due to the Russia/Ukraine crisis.

Positioning

The portfolio invests in companies offering solutions to and/or expected to benefit from the demographic, technological, environmental and governance related transitions that are expected to transform the world's economies and societies during the next decade.

Geographically, the portfolio continues to have a bias to European names while being underweight US names; this bias is a result of bottom-up fundamental analysis where the team is finding more attractively priced securities outside of the US given the outperformance of the US markets compared to international markets since 2011. In terms of sector exposure, the portfolio currently has no exposure to the GICS Energy (oil & gas extraction) or Real Estate sectors, and it is underweight Communication Services and Financials. This is mainly driven by valuation (Real Estate) and the thematic and sustainability approach of the team. As trends like the digitalization of our economy, which saw strong growth as a result of COVID-19, are expected to continue to grow strongly, and support for the health care sector is expected to show solid growth as a reaction to COVID-19 in the short term, and as a result of an aging population and continued focus on health and well-being in the longer term, the portfolio remains overweight Technology and Health Care. There is also an underweight position in the more defensive Consumer Staples sector, which to some extent is offset by an overweight position in Materials (mainly natural food ingredients). With many governments still committed to keeping global warming limited to a 2° Celsius scenario, we expect climate change to remain a driver of political debate, and the portfolio will continue to shy away from fossil fuel extraction in favor of renewables and companies focused on energy efficiency. The portfolio's overweight to the Utilities sector is driven partly part by the conviction in the transition away from fossil fuels. Our conviction in the transition away from fossil fuels, if anything, was strengthened as a result of the Russia/Ukraine conflict as the need for Europe to move toward energy independence was reinforced and alternative energy will need to be a part of that. The team continues to prefer companies with strong balance sheets, solid management teams, and positive exposure to long-term secular trends.

During the second quarter of 2022 the investment team exited its position in Allianz while adding a new position in SVB Financial. The team also took the opportunity to add to their existing position in MercadoLibre while trimming their position in Danaher.

Additions (new position(s))

- SVB Financial – SVB Financial was added to the portfolio. SVB specializes in serving growth companies in technology and life sciences and provides customized financing to associated financial sponsors and entrepreneurs. It is positively exposed to the Technology transition through its specialized sector focus and is uniquely positioned to benefit from the ongoing innovation-led disruption of the global economy and financial services. There is top-level commitment to sustainability issues and financing sustainable solutions as well as integrating sustainability into its operations. ESG risks have been well-managed, with special consideration for social and governance matters.

  SVB enjoys a strong synergistic banking franchise based on its deep sector expertise and superior relationship network, and currently banks over 50% of U.S. venture-backed tech and life science companies. It has experienced industry-leading growth in tandem with the innovation economy and we believe it will continue to expand faster than its banking peers, with long-term opportunities to participate in client growth through warrants/investments and increased lending, deposit gathering, and fee income. With a focus on low-risk PE capital call lending, highly limited early-stage lending exposure, and diversified net interest income and fee revenues, SVB's core businesses are more conservatively arrayed than its impressive growth trajectory and superior ROE would imply. It has a well-capitalized balance sheet and is favorably positioned for rising interest rates due to its asset mix/sensitivity and low beta deposit base. SVB has recently added complementary investment banking capabilities (life science and tech focus) and a wealth management segment (Boston Private) that should leverage its extensive sector expertise and banking relationships to cover all client life stages. Top management is highly experienced, with a strong record delivering growth over a variety of market/technology cycles.

  We believe the recent pullback in the stock presented a buying opportunity, as the price did not incorporate the full long-term potential and growth dynamics associated with SVB's differentiated banking franchise. Opportunities also include expansion of its footprint globally to finance innovation abroad and participate in the international growth of clients. Domestically, its key fund lending business is supported by an estimated $800bn+ in annual industry capital calls from private equity funds alone. We took the opportunity to introduce a position in SVB into the portfolio at what we consider an attractive valuation.

Additions (existing positions)

- MercadoLibre – From a thematic perspective, MercadoLibre is positively exposed to long-term secular growth in ecommerce and fintech. The company is the largest ecommerce company in Latin America controlling 28% of the market. Penetration of ecommerce in Latin America is low at 6%, relative to the rest of the world at 18%; the region is seeing strong growth and MercadoLibre is well positioned to address this. In Latin America almost 50% of the population is unbanked, with currently 80% of transactions being paid for in cash. Access to affordable financial services is critical for poverty reduction and economic growth, and MercadoLibre addresses this long-term secular trend with an integrated digital platform. From a fundamental perspective, the company benefits from economies of scale as the largest in its market and has built up customer trust and a strong brand image. The company has also built an extensive shipping service that is both significantly faster and cheaper than alternatives. In addition, its integrated marketplace and payment platform increases customer convenience, leading to more loyal customers. Although some percentage of its sales are of used goods (benefiting a circular economy) and its digital payment platform allows for access to affordable financial services (reducing poverty, providing for decent work and economic growth), the sustainability impact the company creates is currently fairly low. From a risk perspective, the company manages risks around privacy and the environment adequately. From a valuation perspective, the market is underestimating the long-term revenue growth potential for the company with regard to the growth of both ecommerce and digital payments in the region. Additionally, the company has spent significantly in recent years to build its shipping and logistic capabilities; as the capex spend declines in future years, margin expansion opportunity is significant given the scalability of the company's operations. An updated valuation analysis indicated the stock was priced at a very significant discount to intrinsic value despite continued strong fundamentals as highlighted in the company's most recent earnings quarter. The team took advantage of the market volatility and sell-down in higher-growth companies to add to the stock.

Sold

- Allianz – The team sold Allianz to finance a better investment opportunity. Allianz SE is a German multi-line insurance company that primarily provides insurance through property & casualty and life and health products. The company also operates as an investment company through proprietary investments funded by premiums and third-party asset management through PIMCO and Allianz Global Investors (AGI). While we liked its diversified business mix and cash flow resiliency, controversies regarding certain AGI hedge funds in the U.S. (Structured Alpha) reduced our conviction on corporate governance, and we decided to exit the position to finance more attractive investments.

Trimmed

- Danaher – Danaher is a global science and diagnostics leader. With a broad portfolio of world-class brands, it has unparalleled leadership positions in some of the most demanding and growing industries driven by the Demographics and Environment Transitions, including health care, diagnostics, life sciences, and environmental solutions. Therefore, it contributes strongly to the United Nations Sustainable Development Goals 3 – Health & Well-being, and 6 – Clean Water and Sanitation. While the company continues to be very well-positioned to benefit from these business opportunities in the long term, the portfolio management team trimmed the position slightly after its strong performance over the last several years.

Outlook

The team expects continued volatility at least in the near term, driven by many of the same issues markets have faced so far in 2022: interest rates, inflation, labor shortages, the Russia/Ukraine conflict, supply chain issues and, ultimately, growth and recession fears. While the team believes it still possible to avoid a recession in some economies such as the US, it will be much more difficult for Europe. The biggest risks to the downside, in the team's view, include an escalation in the Russia/Ukraine conflict and the chance that Russia extends the shutdown of the Nord Stream 1 pipeline beyond the scheduled maintenance period to restrict European gas supply. Should Russia decide to leverage its oil and gas supplies to apply political pressure, the impact on the European economy would be immense. Without access to the Nord Stream 1 supply, it could mean European industrial companies must slow or halt production and energy inflation could worsen, putting more pressure on supply chains, the economy, and consumers. In this scenario, European companies, and those with exposure to Europe, cyclicals in particular, would be hit hard. While short-term solutions such as importing liquid natural gas from other countries will be used, renewable energy is the only solution for Europe's energy security in the long term and can make the region truly energy independent. This should have a positive effect on wind, solar, and large-scale energy storage solutions such as hydrogen. It could take a few years, however, before this translates into higher earnings. High energy prices are also expected to have a positive impact on energy-efficient solutions for both the private and the corporate market. While the portfolio is overweight Europe relative to the benchmark, the European exposure tends to be high-quality companies that are active globally with geographically diverse revenue streams.

While there are signs that inflation may have peaked in the US, it will take some time before the same happens in Europe given that energy and food inflation in the region is exacerbated by the proximity to and reliance on Russia and Ukraine supplies. While increasing inflation may not be over for Europe yet, the team's base case assumes we are close to that top and long-term interest rates are not expected to rise significantly from here as a result. However, the view is not necessarily that inflation goes back to the 2%-3% of the last couple decades. Rather, the team can envision a scenario where inflation is higher for longer, buoyed in part by shifting supply chain practices where supply chains may be shortened to bring production closer to home (where labor is also likely more expensive) as companies and regions seek to reduce dependency on countries with autocratic regimes. After decades of globalization, which supported low inflation, this will be a costly and lengthy process.

Under the scenario of higher inflation (and therefore higher interest rates) for longer, companies with higher leverage are not in a good position relative to companies with lower leverage, which would favor high-quality stocks, a structural bias in the portfolio. If rates don't rise from here, growth is likely to be favored over value as valuations have become much more attractive, but selectivity will be key. Within growth, defensive growth is preferred, which can be found in sectors such as Health Care. A recessionary environment would put further pressure on highly levered companies and would favor defensives over cyclicals, further pressuring value overall. While higher inflation, supply chain issues, elevated energy prices, and economic and geopolitical uncertainty is generally bad news for equity investors in the short term, defensive sectors like Health Care, Utilities, and Consumer Staples as well as Information Technology tend to perform well in such a scenario on a relative basis. The portfolio is overweight Health Care, Utilities, Technology, and has exposure to companies in other sectors with more defensive businesses such as Materials names that are closely linked to the Consumer Staples sector.

While volatility may remain high and the outlook may be less positive in the near term until we have greater visibility on economic and geopolitical issues, valuations have become much more attractive in many parts of the market and are already reflecting much of the near-term risk we see. Maintaining a long-term perspective and a focus on fundamentals is key in difficult environments. If we look beyond the short term, nothing has changed regarding the long-term demographic, environmental, technological and governance trends shifting the economy the team focuses on, such as aging population, climate change and digitalization. These trends are secular in nature. The team continues to focus on individual company fundamentals to ensure that company fundamentals or the long-term thesis on the companies has not changed. Overall, while the portfolio may have to endure a challenging environment in the short term, the team believes that the portfolio is well positioned with high-quality companies addressing long-term thematic (secular) growth trends, believes that underlying fundamentals remain strong, and will continue to take advantage of disconnects between current stock prices and long-term value of companies.

Average annualized total returns (%) † as of 6/30/2022

	3 months	YTD	1 year	3 years	5 years	Life of class (3/31/16)
Class Y	-15.11	-24.91	-18.96	8.67	10.18	10.81
Class A at NAV	-15.15	-25.03	-19.19	8.40	9.91	10.53
Class A with 5.75% maximum sales charge	-20.05	-29.33	-23.85	6.28	8.62	9.49
MSCI World Index (Net)	-16.19	-20.51	-14.34	7.00	7.67	9.11

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Total return and value will vary, and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit im.natixis.com. Performance for other share classes will be greater or less than shown based on differences in fees and sales charges. †Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index. Benchmark since inception performance is calculated from 3/31/16.

Gross expense ratio 1.24% (Class A share) / 0.99% (Class Y share). Net expense ratio 1.21% (Class A share) / 0.96% (Class Y share). As of the most recent prospectus, the investment adviser has contractually agreed to waive fees and/or reimburse expenses (with certain exceptions) once the expense cap of the Fund has been exceeded. This arrangement is set to expire on 4/30/23. When an expense cap has not been exceeded, the gross and net expense ratios and/or yields may be the same. Not all share classes available for purchase by all investors. Class Y shares are available to institutional investors with a minimum initial investment of $100,000 and through certain wrap-fee programs, retirement plans, and investment advisory accounts with no minimum. See prospectus for more details.

Risks

Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Foreign and emerging market securities** may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. **Investments in small and midsize companies** can be more volatile than those of larger companies. **ESG Investing Risk:** The Fund's Environmental, Social and Governance ("ESG") investment approach could cause the Fund to perform differently compared to funds that do not have such an approach or compared to the market as a whole. The Fund's application of ESG-related considerations may affect the Fund's exposure to certain issuers, industries, sectors, style factors or other characteristics and may impact the relative performance of the Fund – positively or negatively – depending on the relative performance of such investments. **Currency exchange rates** between the US dollar and foreign currencies may cause the value of the fund's investments to decline.

Definitions

The **MSCI World Index (Net)** is an unmanaged index that is designed to measure the equity market performance of developed markets. It is composed of common stocks of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific Region. The index is calculated without dividends, with net or with gross dividends reinvested, in both US dollars and local currencies. You may not invest directly in an index.

The **ESG Opinio**n assesses whether the investment is compatible with the UN Sustainable Development Goals.

Committed: Contributes very favorably to achieving the Sustainable Development Goals
Positive: Contributes positively to achieving the Sustainable Development Goals
Neutral: In line with some of the Sustainable Development Goals, but impacts are low or unquantified
Risk: Hinders achievement of the Sustainable Development Goals
Negative: Strongly opposes achievement of the Sustainable Development Goals
Not followed: Not rated by either Mirova or ISS ESG

The ESG Opinion is designed to assess whether the investment is compatible with the UN Sustainable Development Goals and is based upon the analysis of Mirova and ISS ESG, a third party. The assessment does not guarantee a profit or protect against a loss, and does not ensure the stability or safety of the overall portfolio.

Disclosure

Top 10 Holdings (as of 6/30/2022)

Security Description	% of Portfolio
Thermo Fisher Scientific, Inc.	4.94
Mastercard, Inc. Class A	4.79
Microsoft Corp.	4.78
Novo Nordisk A/S Class B	3.90
Danaher Corp.	3.67
Ecolab, Inc.	3.41
Eli Lilly & Co.	3.40
eBay, Inc.	3.28
Roper Technologies, Inc.	3.14
Orsted A/S	3.09

This information is dated and cannot be relied upon as current thereafter. This portfolio is actively managed and holdings are subject to change. There is no guarantee the fund continues to invest in the securities referenced, and the holdings identified do not represent all of the securities purchased, sold or recommended. Reference to specific securities or holdings should not be considered recommendations for action by investors.

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Before investing, consider the Fund’s investment objectives, risks, charges, and expenses. Please visit im.natixis.com or call us at 800-225-5478 for a prospectus or a summary prospectus containing this and other information. Read it carefully.

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