

CONTROVERSIAL ACTIVITIES

Mirova's views



Last update: July 2018

 **GROUPE BPCE**

Mirova does not exclude any industry on principle. Within certain industries, however, case-by-case analysis may result in a "Risk" or "Negative" rating for all of the companies of that sector when practices do not provide an adequate level of assurance that the risks associated with the product are properly managed. "Risk" and "Negative" ratings mean that the issuer cannot be included in Mirova's portfolios. The rating can nevertheless evolve following the evolution of the company.

1. Current exclusions

1.1 Oil Exploration and Production/ coal

The growth projections of oil companies involved in fossil fuel exploration and production are incompatible with the objectives of the struggle against climate change. This risk profile is reinforced by the fact that exploration and production industry is turning massively toward extraction techniques associated with more and more environmental and social risks: deep offshore, Arctic, unconventional resources, etc. Coal is the fossil fuel that emits the most greenhouse gases. De facto, arguments against oil companies are also valid for companies producing energy from coal. Exclusion is the result of a case by case analysis, but generally applies to all oil and coal producers with approx. more than 50% of net sales generated with the production of these fossil fuels.

1.2 Tobacco

In line with WHO analyses, we have rated all the actors (with >10% of sales derived from tobacco) in the tobacco industry "Negative" and are thus excluded. It should be remembered that according to the WHO, tobacco is the second largest cause of death in the world. Moreover, its high cost to society entails an international consensus on the necessity of limiting and preventing its health risks.

1.3 Military activities

Weapons can be a factor of peace as well as a factor of war. When used as deterrents, they contribute to peacekeeping. Thus, companies in this industry are not excluded from SRI funds as a matter of principle. However, it must be ensured that weapons or military equipment are not used against civilian populations and therefore that only companies meeting the following three criteria be retained:

- 1/ They are not under the significant influence of a non-democratic regime;
- 2/ They guarantee the non-exportation and the non-re-exportation of weapons to states whose democratic practices are deemed deficient;
- 3/ They do not sell weapons banned by international conventions (such as cluster bombs or anti-personnel mines).

Without complete transparency as to a company's exports (destination countries, type of product, clients, decision-making criteria, inspections), no analysis can be undertaken, which excludes it from Mirova's funds.

At present, we consider that no company across the industry can guarantee the non-exportation and the non-re-exportation of its weapons to states whose democratic practices are deemed deficient. Exclusion is the result of a case by case analysis, based on Mirova's assessment of the company's implication in military activities. Only companies, that produce equipment dedicated to offensive military use, are concerned.

In addition, companies exposed to the production of controversial weapons, cluster munitions and anti-personnel mines are systematically excluded.

1.4 Gambling

Companies involved in gambling activities face significant risks with regards to the social impact of their business. We currently consider that no company in the sector has developed sufficient policies to properly address the risks of addiction and over-indebtedness linked to their activities. As such, all actors ((with >10% of sales derived from gambling) are rated "Risk" or "Negative".

1.5 Adult entertainment

Companies involved in adult entertainment activities face significant risks with regards to the social impact of their business, especially with strong risks related to human trafficking. We have currently not identified any company involved in such activity in our investment universe. However, we currently consider that no company in the sector has developed sufficient policies to properly address these risks. For this reason, all companies with direct implication in these activities would be rated "Risk" at best.

1.6 Sugar sweetened beverages

The consumption of sugar sweetened beverages has had a significant impact on human health particularly in its connection with type 2 diabetes. The WHO recommends that the consumption of added sugars be limited to 10% of daily energy intake and should be ideally at below 5%. However, in the US, current consumption is between 15-18% of daily energy intake. Sugar sweetened beverages have been shown to provide around 50% of the sugar in our daily diets. Additionally, the lack of satiety when consuming liquids could lead to more consumption of calories. Regulatory bodies have started implementing sugar taxes on certain products, particularly targeting sugar sweetened drinks, in the aims to decrease consumption of added sugar. Companies have thus responded by working on formulas to decrease the amount of sugar in their current drinks and developing "no sugar" alternatives that are sweetened with low-calories sweeteners. However, studies have yet to be conclusive on if these no calorie sweeteners are healthier than the sugars they aim to replace. As a precaution, these products are deemed as harmful as their original counterparts. As such, companies whose main products are sugar sweetened beverages pose negative health consequences on their consumers. These companies would have a highest sustainability rating of "risk".

For companies whose product portfolio also contain added sugar but are solid in form, a case-by-case analysis will be performed to ensure that the company has in place the proper practices to reduce the amount of added sugar consumed by their consumers through their products and to promote an overall healthy lifestyle. These practices include: 1) an overall strategy to decrease the amount of sugar, salt and fat in their products with time-bounded targets, 2) a transparent and third-party verified nutritional policy that measures the nutritional profile of their products, 3) responsible marketing policy and practices that limits the advertising of sugary-products to children and that promotes a healthy and balanced diet and lifestyle, 4) a nutrition label policy and practices to let their consumers know the impacts the consumption of products have on their health. Companies that fail to prove advanced policies and measures in the above topics can have a sustainability rating of "risk".

1.7 UN Global Compact's principles and/or OECD guidelines

Companies demonstrating serious breach of *UN Global Compact's principles and/or OECD guidelines* for international companies are also excluded from our funds. Main topics include respect of human rights, labour rights, environment, business ethics and corruption issues.

2. Controversial topics

Mirova ESG research team has developed specific approaches on the following issues:

2.1 Alcohol

Alcohol companies face significant risks with regards to the potential harmful use of their products. This risk is particularly present among certain categories of consumers and low end product ranges, in particular young people and people living in countries where the legislative framework is not robust, where the company has large operations. As for now, this remains an area where industry self-regulation is privileged (large companies mainly act together within industry initiatives to tackle this issue). Companies therefore have a large responsibility in promoting responsible marketing and distribution practices, which have to be tailored to their product ranges and markets.

As such, we have high expectations in order to assess positively the ESG risk management of alcohol companies regarding the following elements:

- 1/ a good understanding of how the company ensures responsible marketing practices in high risk markets (i.e. countries with low regulations, low end product ranges, etc.) and
- 2/ information on detailed risk mappings concerning this issue and according management plans

2.2 Nuclear Power

Nuclear power presents the advantage of a CO2 footprint close to that of renewable energies, because fission reactions emit no GHG. Nonetheless, it is an energy source with risks of its own:

- 1/ The risk of nuclear accidents. Events like Three Mile Island, Chernobyl and Fukushima have demonstrated that nuclear accidents are a reality.
- 2/ Management of nuclear waste. Even after reprocessing of high-level nuclear waste, by-products of fission result in long-lived radioactive waste which can remain dangerous for hundreds of thousands of years.

These risks mean that this technology is not appropriate for every country. Political stability is essential, and a high level of technical know-how is necessary. A case by case analysis of the strategies pursued by players in the nuclear industry is thus applied, especially for those whose contracts are in countries where a monitoring of the industry has yet to be established.

2.3 Other topics

Regarding other topics including **abortion, contraception, embryonic stem cells/human cloning, animal testing**, as Mirova's ESG analysis methodology focuses on key risks linked to each company's activities, high expectations are set in order to be eligible to our funds.

Annex: Mirova's Sustainable Development Rating Scale

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.

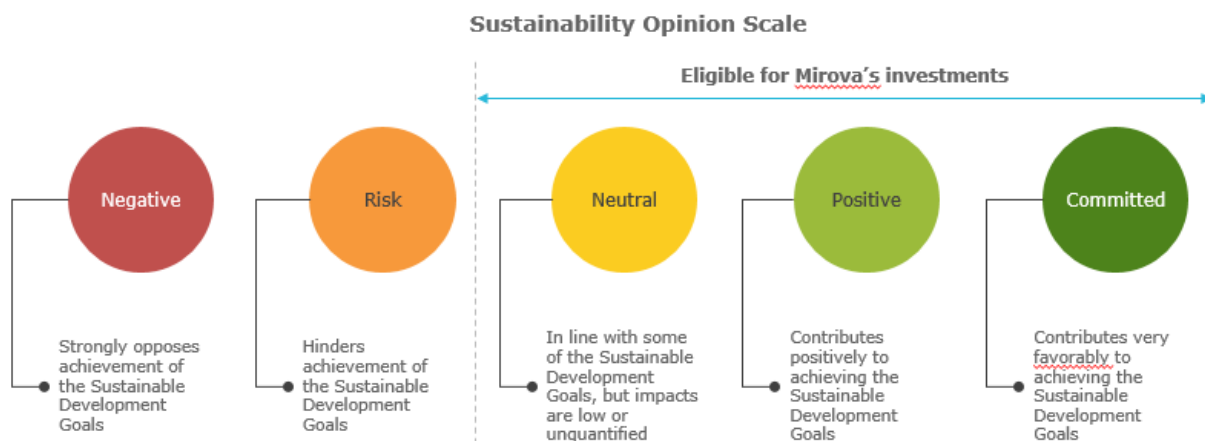
A Life Cycle Analysis

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.

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.

Disclaimer

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. 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. This material must not be used with Retail Investors.

In the E.U. (outside of the UK): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers 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 Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **France:** Natixis Investment Managers Distribution (n.509 471 173 RCS Paris). Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **Italy:** Natixis Investment Managers 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:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano nº90, 6th Floor, 28006, Madrid, Spain.

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

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) 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 Investment Managers Japan Co., Ltd., 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: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) 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 2017 FSC SICE No. 018, Tel. +886 2 2784 5777.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

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

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers 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 Natixis Investment Managers 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 Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers 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 Investment Managers 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.

**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: 59, Avenue Pierre Mendes France – 75013 – Paris
Mirova is a subsidiary of Ostrum Asset Management.

OSTRUM ASSET MANAGEMENT, S.A.

Limited liability company
Regulated by AMF under n° GP 90-009
RCS Paris n°329 450 738
Registered Office: 43, Avenue Pierre Mendes France – 75013 - Paris