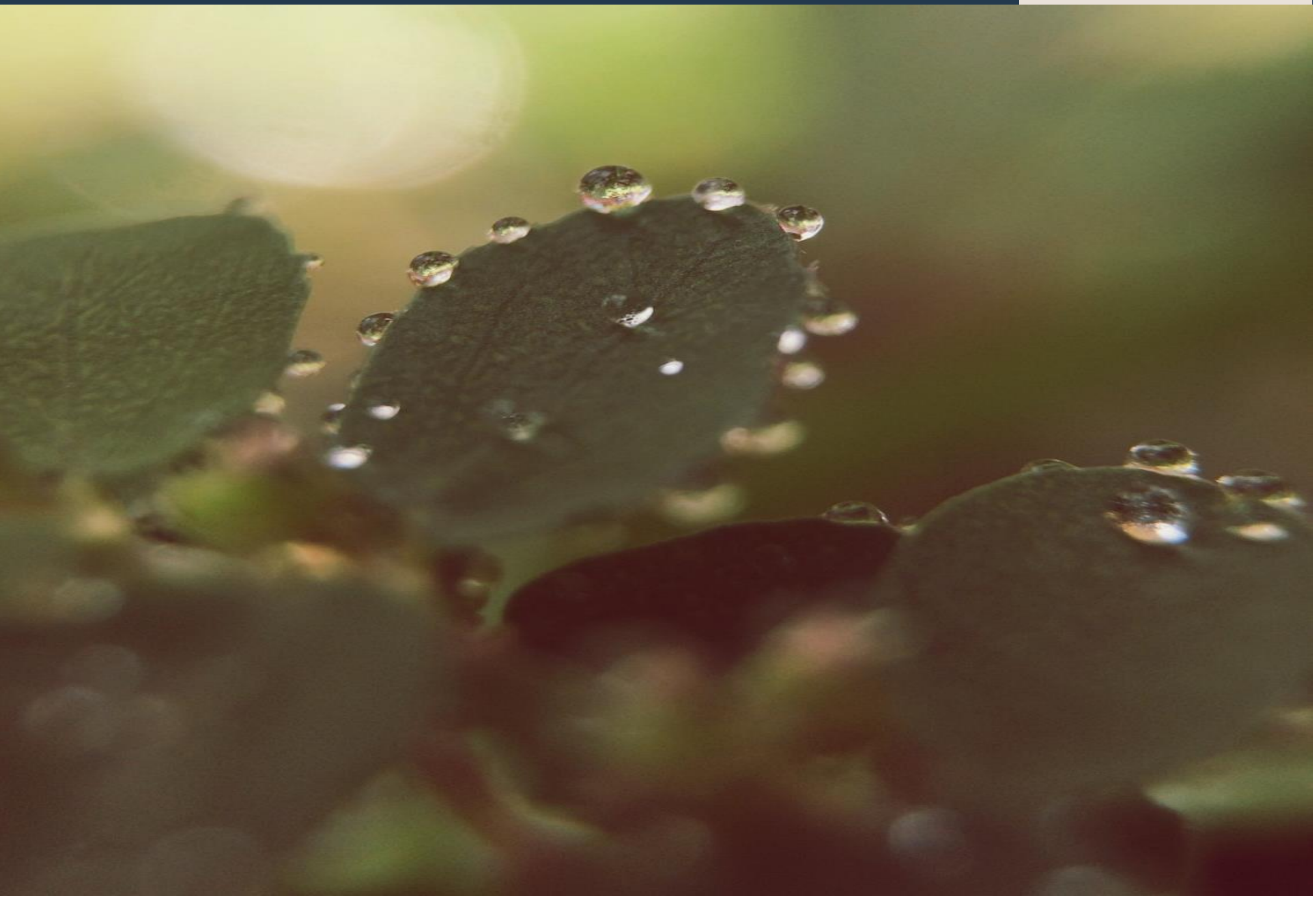
Investing in sustainability

Mirova Engagement Report

2018



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Editorial

Mathilde Dufour

Co-head of Responsible Investment Research

Mirova's investment strategy is based on our belief that sustainable development is a profitable source of innovation. Our strategy aims to provide our clients with consistent medium and long-term financial performance. An investment strategy built on sustainable development not only yields financial benefits, but also has a positive overall effect on both the economy and long-term performance. Our ambitious engagement policy amplifies this positive effect and helps to deepen Mirova's understanding of sustainable development and how it affects our society.

As a responsible investor, Mirova aims to have the largest positive impact possible, hence our proactive approach to engagement. Mirova actively opens dialogues with economic and political policymakers to create an environment conducive to responsible investment. Increasingly, Mirova is measuring the results of these exchanges to see if they've resulted in improved corporate practices and increased transparency.

Our extensive engagement efforts allow us to use our expertise in many different sectors to encourage companies to adopt objectives which are in line with the UN's Sustainable Development Goals (SDGs). As our publications show, Mirova is capable of identifying key risks and investment opportunities in each sector, as well as how these elements relate to the SDGs. In 2018, we encouraged companies not only to improve transparency in relation to their sustainability efforts, but also to improve their overall practices: for example, by developing solutions for ESG issues. Regarding green bonds, it is important that integrity be maintained in the market concerning which projects are financed and the quality of the annual green bond reports.

2018 saw a focus on advocating for sustainable finance at both the national and the international level through our work on the Canfin-Zaouati report for the creation of France Transition. This advocacy work is in addition to our involvement with Finance for Tomorrow, of which Mirova's CEO is chairman, as well as our continued involvement with the High-Level Expert Group on Sustainable Finance (HLEG) at the European level. Through this work, Mirova is planting the seeds for a more sustainable financial industry.

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Mirova’s Engagement Strategy

By using their influence, investors can push companies to make specific operational and strategic changes to maximize shareholder value. For example, limiting risk and maximizing the opportunities associated with an investment. As a responsible investor, Mirova also considers the broader societal and environmental outcomes of each investment in an effort to encourage the companies that it invests in to improve their practices.

Engagement approach

As an active investor, sustainable development is at the core of Mirova’s investment strategy and ensures that our investments contribute positively to the achievement of the Sustainable Development Goals (SDGs). By both directly and indirectly promoting better environmental, social, and governance practices, our engagement approach seeks to create long-term value for society as a whole.

Figure 1: Mirova's Engagement Approach

OBJECTIVE	1. Improve company practices		2. Contribute to developing the RI market
TARGET	COMPANIES		RI MARKET REGULATORS
WHAT	Individual engagement	Collaborative engagement	Advocacy
WHO	• Companies at individual level	• Multiple companies within a sector • Sector / Professional associations • Regulators • Relevant stakeholders (NGOs, etc)	• RI sector / professional associations • Public policy makers / public regulators • Relevant stakeholders (International Organizations, NGOs, etc)
HOW	• Voting • Ongoing company dialogue	• Investor coalitions • Stakeholder campaigns	• Investor statements • Working groups

Source: Mirova, 2018

Mirova has developed a **two-pronged approach** to share its investment vision:

1. ENGAGING IN DIALOGUE WITH COMPANIES:

Engagement with individual companies - Mirova's Responsible Investment (RI) analysts engage in dialogue with the companies which represent the bulk of Mirova's equity and fixed-income investment portfolios. This type of engagement is aimed not only at encouraging better ESG practices, but also at promoting the development of solutions to key environmental and social challenges in every sector via dedicated products and services.

‘’400+ meetings held

‘’~300 companies targeted

Collaborative engagement - Mirova partners with fellow investors and representatives from civil society to identify controversial practices at the industry level and company levels and to promote greater transparency on these issues thorugh dialogues with companies, and, when necessary, to request that companies change their practices.

‘’27 initiatives supported

‘’450+ companies engaged with

As part of this strategy, in 2014 Mirova launched a **Collaborative Engagement Platform**, comprised of its experts and client representatives. The goal of this platform is to create a tool which can be used to influence companies and financial organizations to adopt better practices through close interaction.

‘’2 initiatives launched

‘’3 sectors targeted

2. ENGAGING IN DIALOGUE WITH MARKET REGULATORS:

Advocacy - Mirova shares its investment vision in order to improve standards and regulations across the entire financial sector and to encourage sustainable investment and long-term-oriented practices. Mirova is committed to promoting the adoption of regulations (including legislative changes, standards, and labels) and practices which encourage sustainable investment, which in turn creates long-term value

‘’29 industry forums and associations

‘’6 partnerships and coalitions

1. INDIVIDUAL INITIATIVES

1. Individual Engagement

Summary and Key Figures

LISTED EQUITIES (p. 8)	**296 companies targeted** **55** results achieved
THEMATIC FOCUS (p. 24)	**61** companies engaged about **Job Creation**
VOTING (p. 27)	**31.5%** average opposition rate in **2018 vs. 36%** in **2017**
GREEN AND SOCIAL BONDS (p. 29)	**51 issuers targeted**
RESPONSIBLE INFRASTRUCTURE (p. 32)	**21 projects subject to engagement**

1.1 Listed equities

ENGAGEMENT BY SECTOR

Throughout the year, Mirova's SRI Research team engages in dialogue with companies which are part of Mirova's equity funds' portfolios to encourage them to improve their ESG practices. This dialogue focuses on both sustainable development risks and opportunities (Figure 2):

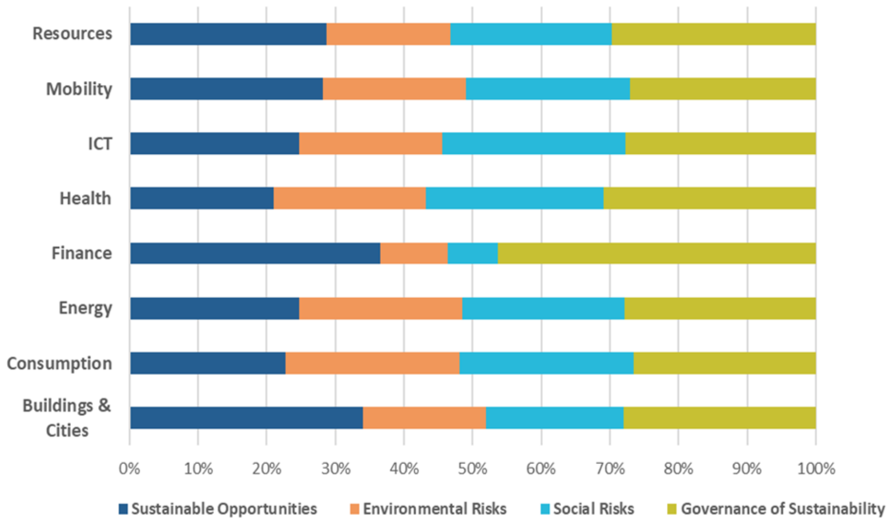
Sustainable Opportunities can be divided into two categories:

The development of Green and Social products - Mirova encourages companies to increase the proportion of products and/or services with sustainable value-added in their portfolios.

The Environmental and Social Benefits of products and services, which focuses on increasing sustainability benefits associated with existing products and/or services.

Engagement focusing on key sector risks is also split into two categories: **social risks** (which can be further divided into 7 subcategories) and **environmental risks** (5 subcategories). Engagement efforts which focus on improving companies' sustainability governance structures include advocating for the application of sustainability-related practices at the highest decision-making levels.

Figure 2: Engagement by Theme and Macrosector in 2018



Source: Mirova, 2018

In addition to addressing issues specific to each company, we also chose to continue to focus on a few global issues:

- **Governance of sustainability:** We continue to push for the creation of sustainable development committees on boards; the introduction of extra-financial criteria for determining executive directors' remuneration; the publication of an audited and certified Corporate Social Responsibility (CSR) report; and transparency on tax payments.
- **Pay Equity:** In order to ensure that value is distributed equally among all stakeholders, Mirova speaks with companies about their methods and practices for measuring how equitably the value which they create is distributed.
- **Measuring SDG Contributions:** To better understand the impacts of company's activity on different environmental and social issues, we encourage companies to work on developing quantitative indicators that will better measure their contributions to the SDGs. For companies with significant carbon footprints, we recommend using a life cycle-based analysis which takes into account both the direct and indirect impacts of a products and services on GHG emissions, as well as carbon emissions avoided.

BUILDINGS AND CITIES

The buildings and cities sector faces serious sustainable development challenges: challenges related to climate change, as well as challenges related to housing: a fundamental human right. Because of this, our engagement in this sector primarily consists of finding solutions to these challenges, such as optimizing buildings to be as energy efficient as possible and creating durable, decent, and accessible housing. All companies within this sector are exposed to the same direct environmental and social risks: they must respect international labor laws and mitigate the impact that their production processes (mining, fabrication, construction) have on local ecosystems.

Engagement in review

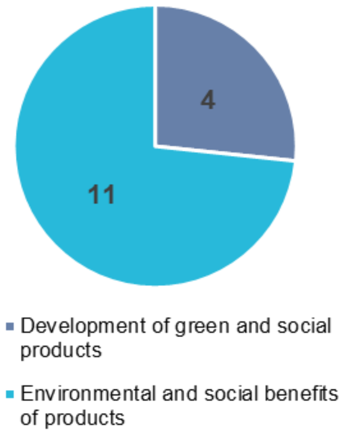
‘’7 achievements in 2018

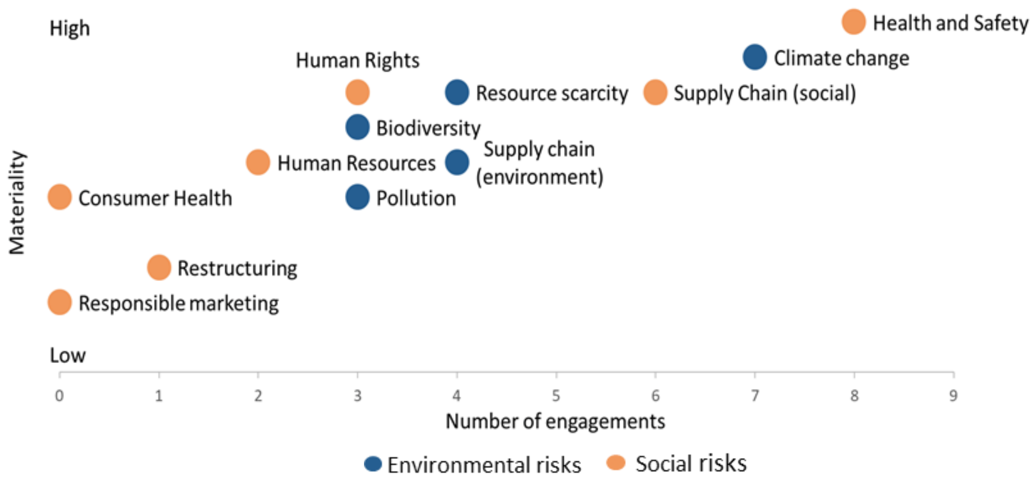
Over the last several years, companies in the “Buildings & Cities” sector have worked to reduce their emissions in order to combat climate by changing how their materials are produced and by making their real estate holdings more energy efficient. Now, we are calling on companies in this sector to go above and beyond these goals by addressing the impact their activities have on local ecosystems and by transitioning towards a circular economy.

Construction companies and real estate developers contribute to urban sprawl and land artificialization and should provide well-thought-out plans for how they intend to compensate the negative impacts of development. Transitioning towards a circular economy will depend largely on companies using greater amounts of recycled materials when fabricating new products. This is one of the most effective ways to reduce the sector’s environmental impact. In order to achieve this transition, Mirova encourages companies to implement detailed strategies including specific goals and indicators which allow their progress to be tracked. The implementation of such strategies may mean rethinking systems for managing waste and creating new recycling systems.

Finally, the arrival of smart buildings will expose companies in this sector to a new type of risk. In order to track consumption in real-time and control equipment remotely, companies will need to collect and store clients’ personal data, some of which may be considered sensitive. Before this technology can be adopted on a large scale, systems must be in place to securely manage client data. Which is why we encourage companies to provide information on how they use and store clients’ data as well as information on any cybersecurity measures they’ve implemented. In 2018, we reached 7 milestones by engaging with companies in this sector.

Figure 3: number of engagements on risks and opportunities in the Building sector in 2018





Source: Mirova 2018

Engagement in Action : Saint-Gobain

For several years Mirova has maintained a constructive dialogue with Saint-Gobain about the company's sustainable development practices. The company's directors have taken the information shared during these discussions on board and have made sustainable development a priority, an effort which we applaud. This year, our exchanges with Saint-Gobain focused on two main topics: evaluating the company's exposure to sustainable solutions and transitioning towards a circular economy.

In concrete terms, the range of products offered by Saint-Gobain includes numerous sustainable development solutions such as materials with medical applications and energy-efficient building solutions. In order to best promote Saint-Gobain's exposure to these activities, we wanted to estimate how much of the company's revenue is generated by these types of products and services. In response, Saint-Gobain developed a tool to track the sustainable performance of its products which will allow the company to better estimate its exposure in the future.

Mirova has also encouraged Saint-Gobain to provide details about the steps it has taken to transition towards a circular economy. Some of the company's products already contain large amounts of recycled materials (glass wool contains up to 70%), but for others, the transition will require the creation of a new recycling system. This is particularly true for waste from construction sites. Saint-Gobain has acknowledged the importance of finding a solution to this problem and has developed several waste recovery initiatives. These have included the creation of in-store drop-off points for recyclable materials and a partnership with Paprec to recycle wood waste and windows. Although there is still work to be done to achieve the desired results, Saint-Gobain intends to continue its efforts towards maximizing the amount of recycled materials used to fabricate its products. Mirova appreciates the company's efforts and is hopeful that Saint-Gobain will succeed in creating a complete waste recovery system.

> *"Our dialogue with Mirova has encouraged us in our efforts to integrate sustainable development into our strategy."*
>
> Antoine Vignial
>
> Secrétaire Général de Saint-Gobain, chargé de la RSE

CONSUMPTION

In terms of opportunities, companies in the industry can play an active role by creating products that allow their consumers access to a more sustainable lifestyle such as healthy and nutritious food and drink or certified ecological and/or social products. Companies can also use marketing tools to inform their consumers of how they can use their products in a more sustainable way and further encourage sustainable behavior.

The environmental and social impacts of the sector are relatively similar, although they appear at different tiers according to the sector. As with most companies that externalize their production, most of environmental and social impacts come from the supply chain – from harvesting raw materials to manufacturing. In terms of direct social impacts, companies in the retail sector tend to be big employers in their countries of operation. The type of employment is usually low-skilled work and therefore highly susceptible to labor rights controversies. As such, companies need to have fair working policies and practices that respect the right to associate and collective bargaining as a minimum. Furthermore, companies in this sector should have in place the necessary mechanisms to ensure that their products are safe for consumption.

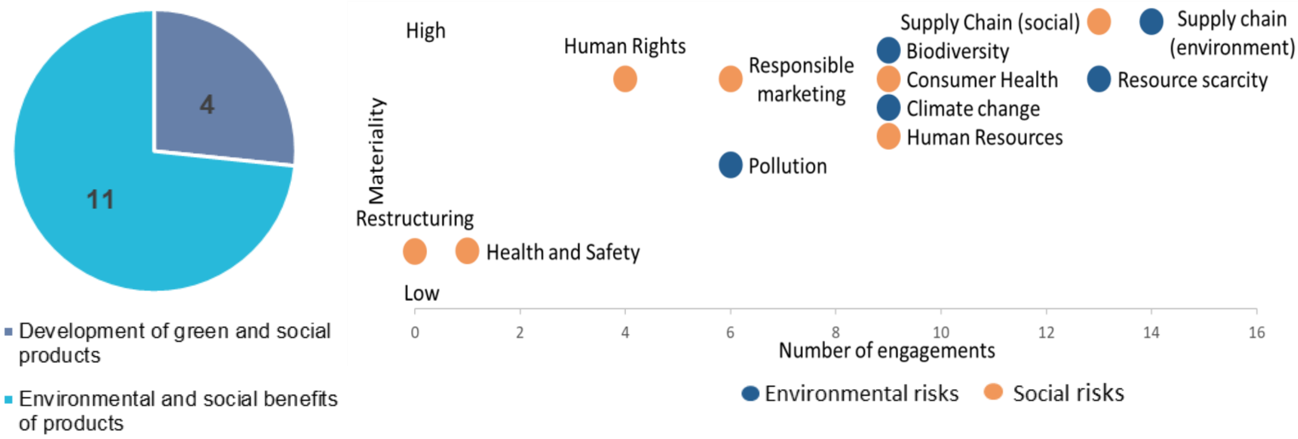
Engagement in review

‘’10 achievements in 2018

In 2018, we continued to engage with companies on they can improve the social and environmental benefits of their products, for example, their health and nutrition profile for food producers and the biodegradability of their products for home and personal care companies. In the food industry, we continue to see a rise in healthier eating habits which translates into eating less animal-based products. Consumers are thus looking for more plant-based protein, which consequently is also the diet shown to be not only healthy but also good for the environment. In coherence, with this, consumers are also actively looking for home and personal care products that have a smaller impact on the environment. Our engagement thus pushes companies to further cater to these consumer demands as we have been and continue to be firm believers that sustainable development issues will continue to mold consumer preferences and buying habits. Our engagements also put emphasis on how companies can further encourage sustainable living practices through their marketing policies.

From an environmental and social risk perspective, the engagements focused mainly around the social and environmental risks linked to their supply chain as that is where many of their risks are found. We've seen more commitments from companies to fully trace their key raw materials, but it still represents a small part of the market. As such, we continue to engage with companies to increase the traceability of their key raw materials to the source. We continue to engage with companies with regards to sustainable agriculture as we haven't seen much improvement on this area in the past year. We would like to see better commitments with regards to animal welfare from companies as well as more concrete actions towards addressing resources security and maintaining healthy ecosystems. In terms of direct operations, we encourage the use of recycled materials in their products (textile and footwear, home appliances) and in their packaging (food & beverages and home & personal care). Other engagement topics involved ensuring that global human resources policies are well implemented in all markets where the companies are present, most especially in countries when human resources practices are generally insufficient. We also engage with companies to be more transparent with regards to their sustainability practices and encouraged that their sustainability reports be audited alongside their financial reports.

Figure 4: number of engagements on risks and opportunities in the Consumption sector in 2018



Source: Mirova, 2018

Engagement in Action: Ontex

Ontex is one of the smaller sized companies that we have in our engagement universe. Companies of this size are usually penalized from an ESG perspective as the level of information provided does not meet what is usually required. Ontex is a similar case. However, based on the information provided by the company, Mirova saw that Ontex had more to give from a sustainability perspective and decided to engage with the issuer to become more transparent on this respect. We also engaged with the issuer to audit their non-financial figures to ensure the quality of the information provided.

In 2018, Ontex launched their inaugural Integrated Report. In this report, unlike previous reports, the non-financial figures were audited to ensure the quality of the information provided. Additionally, the integrated report provided us with more transparency with regards to the company's sustainability practices and how it is integrated into the company's overall business model. We will hopefully see this level of transparency further improve as the years follow.

ENERGY

The Energy sector includes exploration and production of fossil fuels, electric and gas utilities, renewable energy equipment manufacturers, and industrial conglomerates. Because of the link between these companies' activities and the global energy system, many are uniquely able to take advantage of the opportunities arising from a lower-carbon economy. However, they are also exposed to environmental risks, namely spills, greenhouse gas emissions, and pollution, as well as health and safety risks linked to the inherent danger of their activities.

Engagement in review

‘’3 achievements in 2018

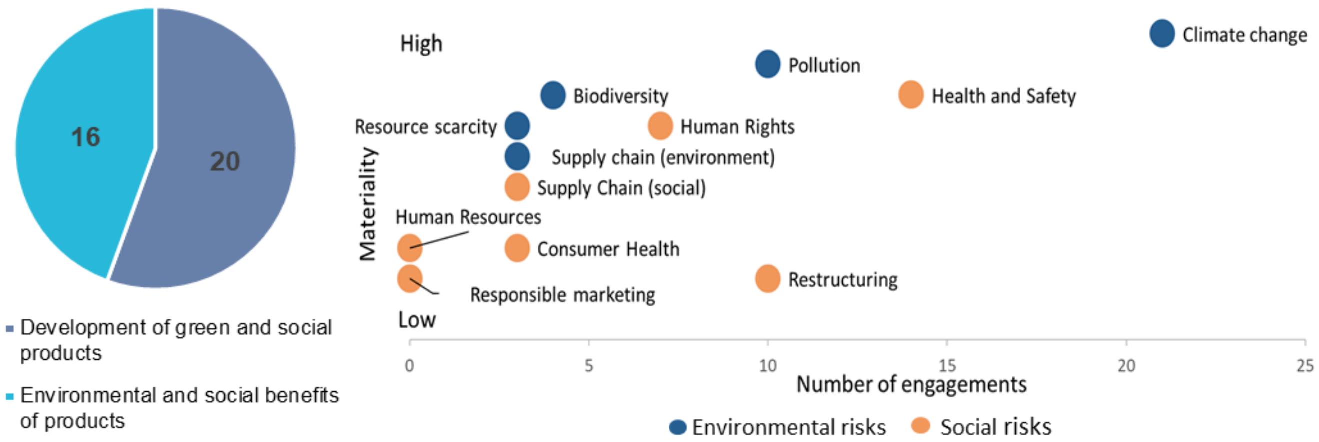
For companies in the Energy sector, much of our engagement encouraged decarbonization in line with avoiding the most severe effects of climate change (attaining a <2°C scenario). We also address the risk management practices essential for sustainable operations company-by-company.

Utilities are among the most positively exposed to opportunity related to the energy transition because of the substitutability of fossil fuels in their activities. Alignment with the 2°C scenario therefore means near-complete decarbonization of their electricity mixes, so we encourage concrete short- and long-term emissions reductions targets, installing renewable energy systems to replace emissive generation assets, and committing to not increase fossil-fired capacity going forward. Risk management for utilities is focused on reducing pollutant (NOx, SOx, effusive, and particulate matter) emissions and – especially for companies with substantial transmission/distribution activities -- implementing worker health and safety management programs.

Fossil fuel producers have fewer options for substituting their products with more environmentally sustainable ones. As a result, we encourage them to set emissions reductions objectives for both their direct activities and te use of their products, implying a diversification of their business activities (to renewable energy or low-carbon electricity generation, for example) so that they can reduce their output of coal, oil, and/or gas. For companies with operations in high-risk areas, we reiterate the importance of preserving local flora and fauna via reducing spills and limiting operations in sensitive biodiversity zones, extending worker health and safety programs to both company employees and contractors, and respecting the rights of local populations.

Energy efficiency will play a key role in climate change mitigation, so we encourage industrial equipment producers to pursue efforts to improve the environmental impacts of their products. For industrial conglomerates with very diverse products, we particularly support reporting practices that allow us to better understand how the company's products address the Sustainable Development Goals. Finally, we encourage companies involved in project development, operation, and/or maintenance to proactively ensure that environmental and social due diligence is performed appropriately throughout development, and that high health and safety standards are upheld during operation.

Figure 5: number of engagements on risks and opportunities in the Energy sector in 2018



Source: Mirova, 2018

Engagement in Action: Repsol

In 2018, we engaged with Repsol on the key issue faced by integrated oil and gas companies in the context of the energy transition: decarbonization of its activities. We encouraged the company to diversify its business model and align itself with the 2°C scenario in a series of meetings with the sustainability department, investor relations, the CEO and the EMD on Technology Development, Resources and Sustainability and always came away from these meetings feeling that we had achieved constructive dialogue.

At the beginning of the year, Repsol had recently sold its stake in a gas distribution business swapping its €3.8bn exposure to a medium regulated carbon business to an operated position in position in low-carbon business. We supported using this for investments in low-carbon businesses and initiatives to reduce the carbon intensity of the company's operations and products. In June, Repsol updated its 2018-2020 strategic plan, committing to allocate 17% of its total capital expenditure over the period to new businesses associated with the energy transition, beginning with the acquisition of some low-carbon generation assets. It simultaneously announced its ambition to reduce its carbon intensity by 40% between 2018 and 2040, in line with the International Energy Agency's Sustainable Development (2°C) scenario, by further shifting towards natural gas, implementing energy efficiency measures, reducing its methane emissions, investing in carbon capture and storage, diversifying towards renewable energy, low-carbon power production, and more. This represents a relatively ambitious decarbonization objective for an integrated oil and gas company and, when combined with the recent low-carbon acquisition, a concrete step towards reducing its lifecycle greenhouse gas emissions.

We have been pleased at the quality of the dialogue and the actions taken by the company and look forward to following up on Repsol's progress towards these objectives soon.

> "
> *My role as CEO is to balance the transition to cleaner sources of energy over the coming decades while ensuring Repsol's profitability."*
>
> Josu Jon Imaz
> CEO, Repsol

FINANCE

The finance sector encompasses companies involved in the banks, investment management and insurance sectors. Despite the heavy public criticism, it has received for excessive risk-taking and what has been considered a short-term focus in the wake of the last financial crisis, the financial sector continues to be a key player in the market economy and its role to implement the transition towards a low-carbon economy is pivotal. Banks and investors can directly contribute to primary sustainable development issues. As a keystone in capital allocation, banks and investors can play a major role in financing the energy transition and directing capital flows towards low-carbon sectors, and they can provide sustainable development solutions. Banks can also contribute to reducing poverty by providing universal access to financial and basic insurance services.

Also, banks have to win back trust from both the public and stakeholders by adhering to business ethics that are beyond reproach, responsibly managing their clients and Human Resource practices, and ensuring they are adapted to the challenges of the future, such as digitization and regulation. Insurers have to provide new solutions against sustainability risks such as climate adaptation and manage the age pyramid.

Engagement in review

“1 achievement in 2018

In 2018, our engagement with the financial sector has remained mainly collaborative through the development of our advocacy activities (for more details, see chapter 3).

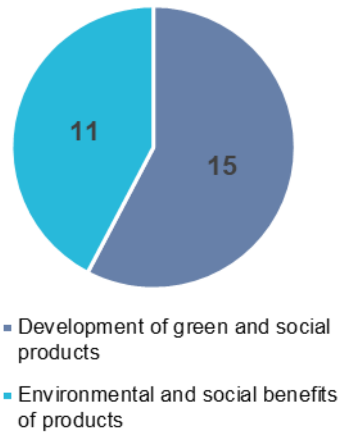
At the individual level, Mirova engages increasingly with issuers from the financial sector, mainly to urge them to monitor and disclose how they factor sustainability in their investment or lending strategies and guidelines.

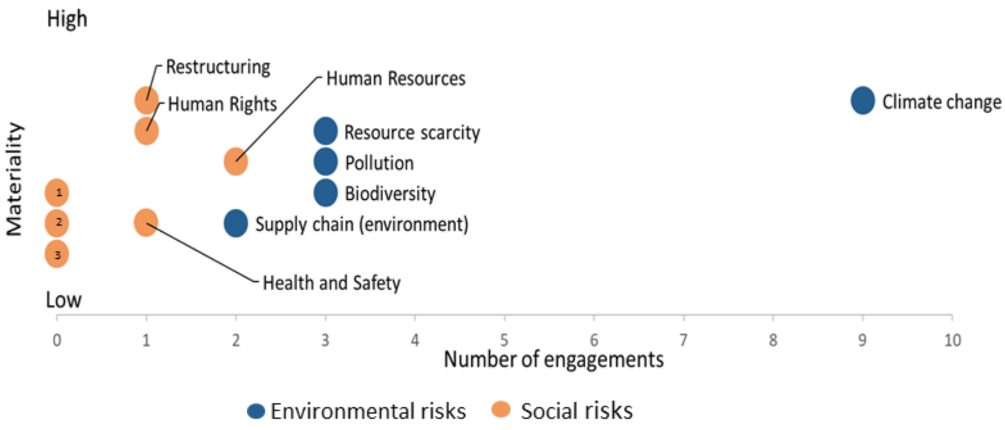
For instance, we request disclosure on the share of financing contributing directly to the UN Sustainable Development Goals, with climate finance being a priority to understand how much financial institutions keep supporting the fossil fuels industry or, on the contrary, how much they finance renewable energy and energy efficiency. As climate change becomes a palatable issue that has started to impact citizens’ lives, the role of insurers to develop bespoke insurance products to prevent and protect against new risks is also key.

Access to financial means and insurance protection for the Base of the Pyramid (BOP) is also an important aspect to improve safety nets and reduce inequalities. Exclusion from basic financial services does not only concern developing countries. In fact, the complicated macroeconomic situation in developed countries, particularly the high unemployment rate, has de facto excluded a significant portion of the population from access to financial services. Both nationally and internationally, banks must address this social issue by offering differentiated products to at-risk populations and by partnering with organizations that provide aid to this particular clientele.

Finally, for banks, the management of ESG risks and in particular business ethics remains the bulk of engagement: in 2018, new examples of banks with a solid business ethics reputation have proved fragile with several cases of misconduct, fraud or money laundering to be investigated and engaged. This is an important part of our engagement to better understand how these companies ensure that they implement a sufficient level of control (for example on Know Your Customer Procedures), in an increasingly regulated environment.

Figure 6: number of engagements on risks and opportunities in the Finance sector in 2018





1: Responsible Marketing, 2: Supply Chain (social), 3: Consumer Health

Source: Mirova, 2018

HEALTH

The health sector encompasses companies involved in several areas of medicine: from companies involved in the development of medical products and equipment, to those managing healthcare facilities as well as providers of specialized services. These companies face sustainability risks stemming from manufacturing safety to business ethics, which includes marketing practices, pricing policies, and anti-corruption policies. However, the sector is also poised to contribute to several SDGs, by promoting good health and well-being where the burden of disease is the highest also among low-income populations.

Engagement in review

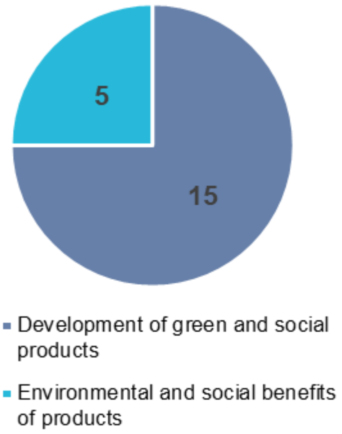
‘’4 achievements in 2018

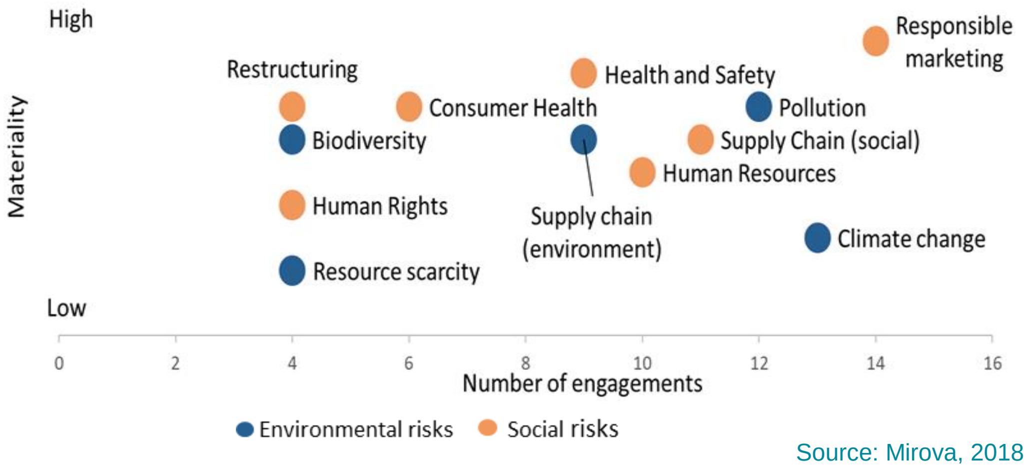
In 2018, we continued our engagement with pharmaceutical and biotech companies on two important issues affecting their sector such as “access to medicine” strategies and transparent pricing. As health disparities across the regions increase despite a positive overall outlook of the global average life expectancy, we see access to care as the number one priority for companies across the entire medical sector, especially those involved in the development of medical products. In addition, drug pricing continues to be a hot topic due to increasing reforms in the sector, driven by the United States, that aim at reducing healthcare expenses. While we recognize that pharmaceutical and biotech companies drive medical innovation and are only partly responsible for increasing healthcare costs, we note that transparency around drug pricing and increases is still poor in the sector and thus we seek better practices and firm engagements toward focusing on achieving broader access. On the environmental side, we encouraged pharmaceutical and biotech companies to further limit the negative impacts of drugs on the environment, both through manufacturing and through product consumption and disposal, in order to contribute to tackling the increasing burden of antimicrobial resistance. As a result, supply-chain engagement remains relevant across the sector.

Regarding medical service providers, and particularly companies within inpatient care, we focused our 2018 engagements on human resources and consumer health, which are intrinsically related in the sector. Numerous controversies regarding practices around patient mistreatment and persisting conflicts between companies and the workforce have prompted our increased attention towards companies providing elderly care.

Finally, medical device manufacturers continue to be exposed to the risk of product safety coupled with unethical marketing practices. Thus, we continued to engage on improving transparency around best practices around marketing practices and business ethics, as well as around quality and safety procedures in product manufacturing and strong supply-chain risk management.

Figure 7: number of engagements on risks and opportunities in the Health sector in 2018





Source: Mirova, 2018

Engagement in Action: Orpea

We engaged with Orpea on the key ESG risks facing the dependency care sector. In particular, we engaged in dialogue after the French Comité Consultatif National d'Ethique (CCNE) issued a report bringing forward some concerning trends within the public elderly care sector.

We met with the company's senior representatives at the company's offices, including the Head of Medical Department, Dr. Linda Benattar, and engaged on themes including quality of care, employee relationships as well as the long-term issues surrounding elderly care. We noted the company's focus on post-acute and rehabilitation care, where the public sector's resources are currently scarcer. We were positively impressed by the active participation that the company has with the public sector and, particularly, the fact that Orpea contributes to increasing overall sector practices, including national plans to respond to heatwaves and prevention of patient mistreatment. While we appreciated the company's measures to address the problem of "dehumanization" of the nursing clinics flagged in the CCNE's report, and the fact that the majority of the company's clinics were publicly audited and passed the checks in 2018, we recommended that Orpea focuses on improving public disclosure around these issues and provide more KPIs.

The company was receptive of our suggestions, but it is reluctant to provide extensive information and KPIs due to the high level of media attention focused on its sector in France. In 2019, we will focus our engagement with the company around its quality management across its international clinics and employee relationship management, and we will continue to encourage improved transparency.

> *"The loss of physical and psychological autonomy and the maintenance of quality of life for the fourth age are societal and economic challenges that call for individualized solutions requiring the perfect coordination of medical and social stakeholders."*
>
> Linda Benattar
> Medical Director, Orpea Group

ICT

The ICT sector encompasses companies involved in several areas of technologies, from companies specialized in electronic components and devices to those developing software as well as providers of services, telecommunication operators or media companies. These companies face sustainability risks stemming from safety and human rights in the manufacturing process to products' responsibility, which includes data security and privacy, quality of content, toxic and hazardous substances, energy efficiency, etc. However, the sector can also contribute to various SDGs, directly by bringing access to information and banking to the under-served and indirectly by enabling sustainable solutions in other industries (solar energy, sustainable agriculture, smart cities, etc.).

Engagement in review

“10 achievements in 2018

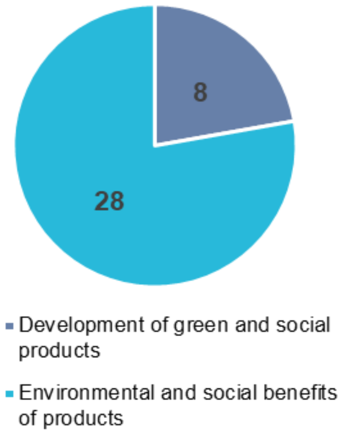
After several years of continued engagement, many companies in the ICT sector publish regular detailed reports on how they've incorporated responsibility into their approaches. Our dialogue with these companies now focuses on the quality of the information published and on the importance of **providing evidence of their exposure to sustainable solutions**, either by providing a breakdown of their revenue by use or final market, or by quantifying the environmental and social benefits generated by their activities (number of users, avoided emissions, etc.) This is especially important because most companies in the sector provide solutions whose positive impacts are only visible when used by clients.

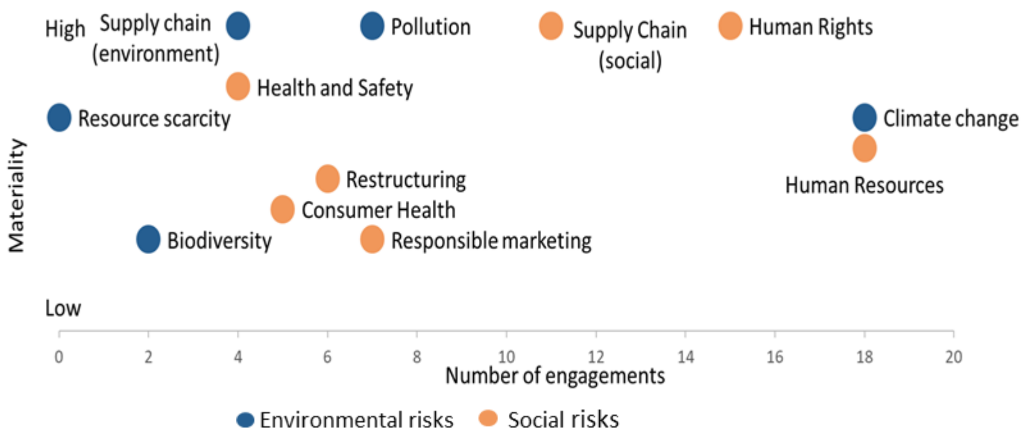
Companies in the ICT sector are highly exposed to key challenges concerning human health, safety, and welfare as well as to challenges concerning the preservation of our planet. Certain areas of risk, such as **mineral traceability** and the **compliance of suppliers with social standards** are difficult to mitigate despite their severity. Mirova continues to ask companies to provide an overview of their production chain which highlights their major suppliers, both in terms of spending, and in terms of exposure to social and environmental risks. We encourage companies to describe their auditing procedures (target setting, methodology, tools, etc.), to detail the results (by category and level of severity) and to explain their responses (corrective action, breach of contract, etc.). Because we're aware of the difficulties involved in managing a supply chain and the importance of preserving good relations with suppliers, we recommend that companies join sectoral initiatives (RBA, JAC, etc.), which will allow them to take action to increase their exposure to sustainable solutions without imposing unnecessary constraints on their suppliers.

Standard industry practices regarding the privacy of Internet users and the quality of advertising content, as well as fiscal practices are largely insufficient. We continue to remind companies of the importance of these issues and the need to adopt better practices.

Finally, while companies within the ICT sector may be providing sustainable solutions, the sector as a whole is still generating a growing number of electronic devices whose energy consumption, compositions, and disposal pose problems. Which is why we've chosen to concentrate on topics such as evaluating carbon footprints (lifecycle approach, maximizing the energy efficiency of products, and renewable energies), substitutions for harmful substances (brominated flame retardants, benzene, arsenic, mercury, and lead as well as PVC, phthalates, etc.), and recycling electronic waste (how much of a device can be recycled, identifying appropriate recycling lines, non-redirection, etc.) in our discussions with companies. Companies tend to adopt better practices in these areas with time. We continue to expect significant improvements in the future.

Figure 8: number of engagements on risks and opportunities in the ICT sector in 2018





Source: Mirova, 2018

Engagement in Action: Capgemini

Over the past several years Mirova has maintained a constructive and regular dialogue with Capgemini about environmental, social, and governance-related topics. The company also invests the time and resources necessary to build a dialogue with stakeholders in order to improve its CSR practices. As of 2018, we have not identified any significant advances. Capgemini amended the compensation policy for its directors, making a portion of their variable long-term compensation dependent on the achievement of CSR goals. This represents a decisive step forward for companies wishing to incorporate sustainable development into the heart of their governance practices. It's worth noting that Capgemini has already begun integrating employees into its governing bodies, including the board committee responsible for compensation. This year, we've expanded the discussion to include the fair distribution of value among shareholders. Capgemini has already provided us with details on its French policy and should provide us with elements for a broader analysis soon.

We're appreciative of Capgemini's efforts to further integrate sustainable topics into its governance policy, to update its medium and long-term CSR strategies, and to improve its communication with shareholders. We expect to see further progress from the company over the next few years.

> *"We are committed to being a responsible leader in our field and to having a positive impact on the world."*
>
> Christine Hodgson
> Global Head of CSR, Capgemini

MOBILITY

Mobility is a crucial aspect of human development. Moving goods and people facilitates access to goods, services and more globally society functioning. However, these displacements have impacts on climate change, air quality, consumption of fossil resources, biodiversity and the health of populations. Today, mobility is still a privilege unequally distributed among populations. The sector must reconcile access to mobility for the greatest number of people while reducing the environmental and social impacts related to transport.
Companies can be providers of ecological transition and access to mobility solutions.

Engagement in review

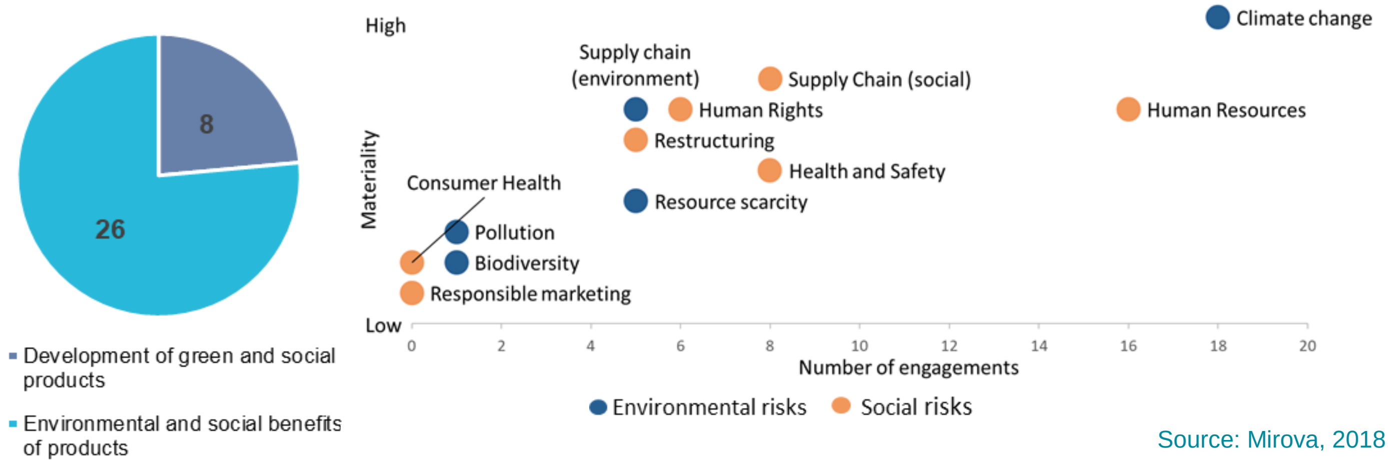
‘’**7** achievements in 2018

Mirova encouraged companies to reinforce their positioning on ecological transition solutions (goals, means implemented, challenges to overcome) and increase transparency on investments and revenue related to these solutions. In addition, to cope with sustainability risks related to the sector, Mirova supported companies to sufficiently disclose and be efficient on global environmental impacts of the activity, transport safety, human capital management for both employees and suppliers, responsible sourcing and conception including in-depth thoughts regarding best environmental and social solutions.

In 2018, we also focused on the emerging risks related to transport electrification such as new material issues in the supply chain, especially regarding batteries and electric engines, but also the reduction of carbon footprint related to electric vehicles production. Mirova encourages vehicle makers to be fully transparent regarding policies, sourcing (technologies substitution, recycling, collaborations with metal and mining industries, strategy country by country) and actions (audits, due diligence, contractual clauses) deployed to mitigate risks related. Moreover, in context of radical technological breakthrough, the expertise required in the automotive industry drastically changed with increasing demand of electrochemistry, composite materials and information & communication technologies knowledge. Hence, it is essential to understand how companies will adapt employees’ skills and know-how to this major technological change.

Finally, companies active on defense sector must ensure that military products are neither exported nor re-exported to non-democratic countries or those where democratic practices are judged to be insufficient. In 2018 our engagement resulted in 7 achievements made by the companies in the sector.

Figure 9: number of engagements on risks and opportunities in the Mobility sector in 2018



Source: Mirova, 2018

Engagement in Action: Volkswagen

In 2015, the Dieselgate highlighted strong sustainability shortcomings at the company's practices related to pollution, consumers' health and governance mechanisms. While the company admitted its guilt, the financial consequences and the consequences for the company's reputation were huge and may probably still weight on the group. Since then, we have frequently engaged with the company to understand what its progress was. Although sudden and severe, this controversy had the effect of an electric shock (no pun intended) on the company that fully restructured its strategy and its practices. These changes are tangible on various fronts; firstly, the company's strategy towards electrified vehicles, where the company adopted previously a very cautious approach and confirms now high ambitions with 80 new electric vehicles on sale by 2025, including 50 battery-electric vehicles and 30 plug-in hybrid electric vehicles. Moreover, the governance reshaping with a transition from a pyramid structure to a flat organization, initiatives to boost ideas from all employees, whistle-blowing improvement, strengthened controls in the risk management, new compliance procedures, strong training regarding compliance and ethical values for all employees, and finally change in the top and middle management. In addition, Volkswagen adopted a consistent approach regarding electric vehicles emerging issues, as illustrated by the conversion of all its e-mobility plants in CO2 neutral plants, including battery cells supply, through partnerships with batteries producers. Finally, we note the company changed its operations with a sustainable supplier strategy from raw material to final product and its CO2-free strategy by 2050, as a player committed to the Paris agreement.

There is still a long way to completely erase the scars of the past. However, we believe that Volkswagen has changed by incorporating the key recommendations of its stakeholders into its strategy.

> *"Never has the company changed so much in such a short period of time, although there is still a long way to go until all remaining issues are resolved."*
>
> Alexander Hunger
> Senior Investor Relations Officer, Volkswagen

RESOURCES

The Resources sector includes waste & water industries well positioned to address the challenges of water stress and resource security, and to contribute to the development of a circular economy. It also includes all the chemicals, industry of the industries, enabler of most sustainable technologies required for the environmental transition, hence capable of supporting many SDGs. The sectors of agriculture and forest are at the heart of land use conversion causing a degradation of ecosystems, so the fight against deforestation, unsustainable forestry and conventional agriculture accounts for many opportunities to develop innovative solutions– to increase yields sustainably, the share of certified forestry operations, etc.
In terms of risks, all these sectors tend to be heavily industrial, and therefore highly exposed to environmental and safety risks within their operations, and product toxicity remains another major issue, mainly for chemicals and agrochemicals. In addition, many players of these industries are exposed to high risks in their supply chains: ingredients companies purchasing from agricultural operations, but also paper & packaging dependant on forestry operations, are only two examples. Lastly, metals & mining a sector particularly exposed to ESG risks, as it is very strongly connected with critical impacts on the environment as well as major social risks, notably on human rights.

Engagement in review

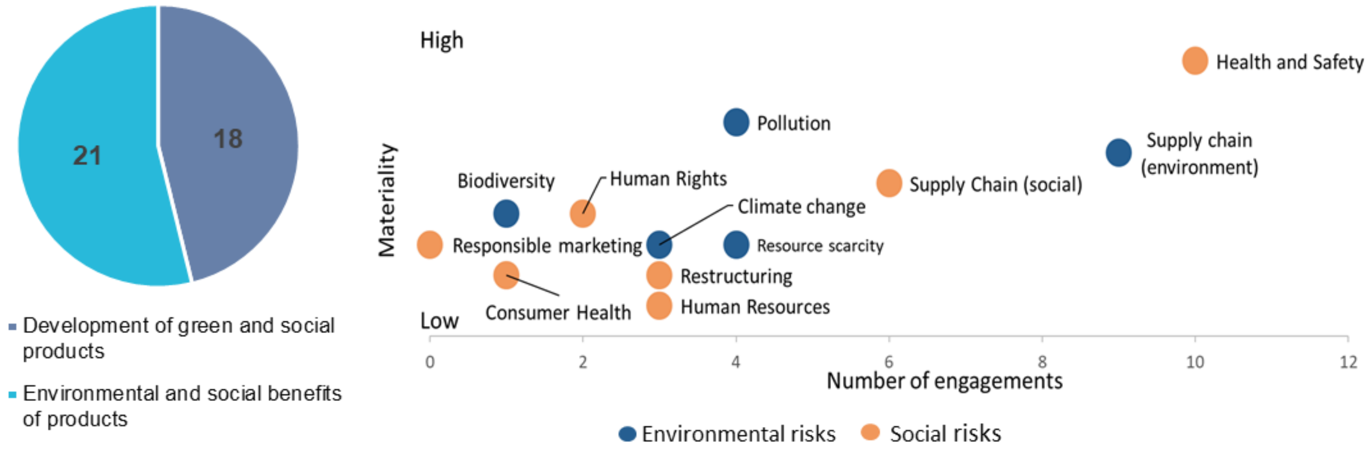
“13 achievements in 2018

Regarding risk management, one of the main topics of engagement in 2018 was the management of health and safety risks: although most industries have a good history of risk management for employee safety or environmental accidents, there is still a lot of work to be done, regarding H&S of contractors, or for mining companies typically. H&S also includes product toxicity, which remains critical in the chemical and agro-chemical industries. Supply chains are a more recent topic of concern for companies, yet for some industries they account for the bulk of the environmental impacts (ingredients, packaging), hence a strong theme of engagement. Supply chains in these sectors are also often correlated with social issues, with possible child labor or unfair treatment in agriculture or forestry. More direct environmental impacts of industrial processes are generally well managed, as these industrial sectors have been long called upon to manage pollution, and environmental optimization often goes hand in hand with cost optimization. Some topics are at the heart of resources sectors, such as biodiversity or human rights. However, they are most relevant for agrochemicals or mining operations, two sectors under-represented in our investments, which is why they do not come out as major topics of engagement.

In terms of opportunities, sustainable solutions developed by these companies were often the subject of engagement as these sectors have many opportunities to develop interesting products, yet they often lack a clear and transparent ambition on this aspect.

Also, given the often-straightforward benefits of such solutions for the environment, we frequently encourage companies to try and assess the physical benefits of their activities (resource conservation in the case of recycling activities for example). In 2018 our engagement resulted in 13 achievements made by the companies.

Figure 10: number of engagements on risks and opportunities in the Resources sector in 2018



Source: Mirova, 2018

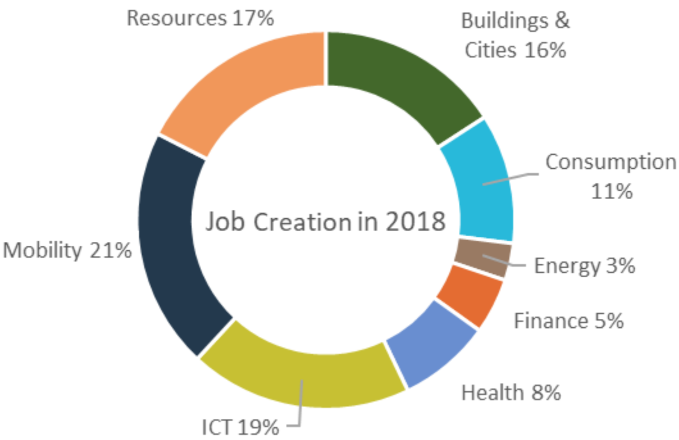
Engagement in Action: Symrise

As Mirova represents for the company a Responsible Investor regularly engaging dialogue, Symrise invited us to participate to their biannual Sustainability Board Meeting. This meeting is the opportunity for all the key people in charge of sustainability within Symrise to meet and work on the strategy ahead. This was the first time that an external party, an investor in this case, was invited to this usually internal meeting. It was an opportunity for the operational teams working on sustainability to hear directly about the expectations of a Responsible Investor, hence a great opportunity for engagement on our side. The critical issue of supply chain was notably discussed largely, as it is a very complex topic given the vast number of raw materials purchased and given confidentiality aspects - the question of the supply chain is a major pillar of ingredients companies' strategies. On that theme, Mirova expects companies to try and disclose their approach assorted with a materiality analysis, explaining exactly where in the supply chain the biggest risks, the biggest volumes, the highest value lie; how this translates into an assessment of “critical” purchases; what part of the critical purchases actually benefit from special processes within the company, such as specific on-site controls or environmental/social criteria. Overall the meeting allowed to deepen our mutual understanding of our respective key objectives and constraints, and to circulate our SRI philosophy and requirements more directly to the operational people of ESG in the company.

> “
>
> *ESG is not a fashion but a necessity to be successful in our market. When it comes to sustainability, we strive to tick all boxes, so we value dialogue with external parties such as Mirova, that helps us stay in touch with our stakeholders’ expectations and opinions.*
>
> Heinz-Juergen Bertram
> CEO, Symrise AG

1.2 Thematic Focus

JOB CREATION



Source: Mirova, 2018

Although employment is a major concern in France, it's an issue that's rarely taken into account when managing portfolios. Since its launch in 1994, the Insertion Emplois Dynamique (IED) strategy has sought to address this issue through solidarity financing, which makes up 5 to 10% of the Fund's portfolio, as well as through listed stocks, which make up around 90% of the portfolio, by investing in companies likely to create jobs in France.

''63 companies engaged with on job creation

Each year, Mirova opens dialogues with a number of companies in order to better understand their outlooks on job creation in France. Although transparency regarding staff distribution isn't mandatory, data on this topic helps us to expand the Fund's investment universe.

In addition to data transparency, there must be a clear connection between a company's strategy and its human capital in order for us to fully understand the company's approach. Our discussions with companies regarding the IED strategy's objectives allow us to maintain a constant dialogue about improving employment prospects.

In 2018, many companies chose to bring their employment practices in line with the Fund's investment criteria. Both developing French companies such as MedIncell, and larger American and Japanese companies such as Ecolab and Kubota, were among these companies.

GOVERNANCE: UNIVERSAL ISSUES

‘’277 companies targeted

Similar governance issues affect almost all sectors. As in previous years, Mirova chose to emphasize the following issues in 2018:

Responsibility and Representation in Governance

- The Nomination Committee is responsible for selecting applicants. Mirova expects specific explanations of these choices.
- A balanced representation of the company’s strategic stakeholders on the Board: Mirova maintains that employee representatives should be present on the Board, even in markets with regulations that favor employee’s interests.

Fair Remuneration for Stakeholders

- Aligning stakeholder remuneration with real value creation: Aligning stakeholders’ long-term interests with those of the company should result in a positive correlation between shareholder remuneration (dividends and share repurchases), manager remuneration (total), employee remuneration (payroll), and the company’s revenue (for example, via taxation).
- Balancing remuneration in the company: stakeholders can only collaborate efficiently if their contributions are recognized and compensated. The companies which Mirova invests in should have distribution and remuneration mechanisms in place which are governed by the principle of equity. We encourage companies to include employee representatives on compensation committees and to announce changes in payroll, particularly changes regarding managers’ remuneration.

Taking Environmental and Social Issues into Account in Governance

- Inclusion of environmental and social issues in remuneration policies: Through dialogue with companies which are a part of its portfolios, Mirova seeks to understand how the CSR strategy is implemented in remuneration mechanisms, to evaluate the pertinence of the criteria used to consider issues faced by the company, and to regulate monitoring.
- Taking CSR issues into account on the Board level: we encourage companies to create a CSR Committee on the Board, or any other equivalent structure, dedicated to these issues.
- Verification and certification of extra-financial information: Mirova would like to see audited and certified information on environmental and social performance included in the annual report.

1.3 Influence through the Exercise of Voting Rights

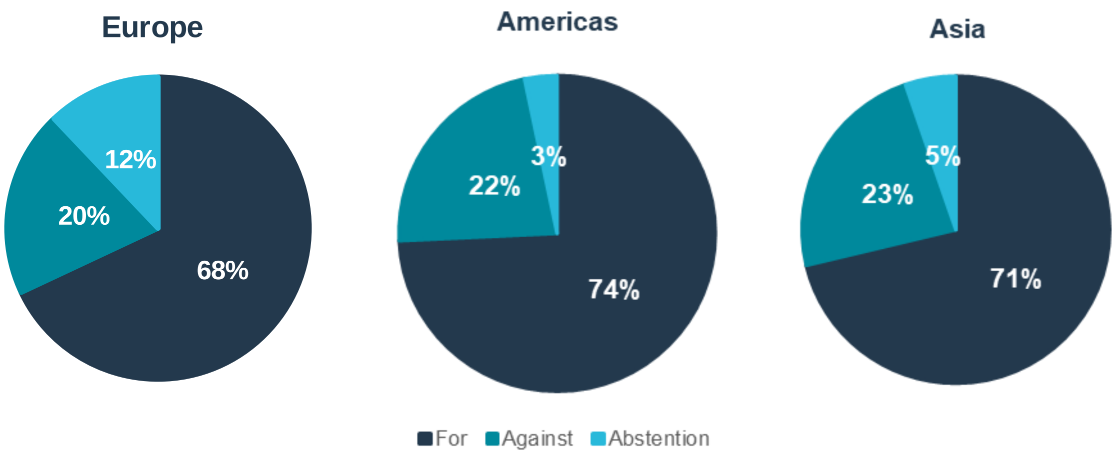
In order to promote the creation of sustainable value for all of its stakeholders, Mirova has drafted a Voting Policy in line with its sustainable investment strategy.

In 2015, Mirova began an in-depth, critical examination of the stakes of traditional governance, with the aim of defining a governance model based on an entrepreneurial and sustainable company vision. This examination laid the groundwork for a new voting rights policy based on a new governance model. This governance model is based on four main pillars:

- The development of a long-term shareholder base to support a company's sustainable development,
- The creation of governing bodies that serve all stakeholders and address CSR issues,
- The introduction of a compensation policy which is not only fair to all stakeholders, but which also incorporates environmental and social considerations into the criteria for determing incentives and aligning interest, and
- Increased transparency and a better quality of both financial and extra-financial information, due to the implementation of an audited reporting system which takes into account sustainable development challenges as well as financial issues.

This approach is based on work by the academic chair of Mines ParisTech on the subject: "Théorie de l'entreprise. Modèles de gouvernance et création collective" (Theory of the Firm. Models of Governance and Collective Creation). Mirova has supported this work since 2015.

2018 Voting Results



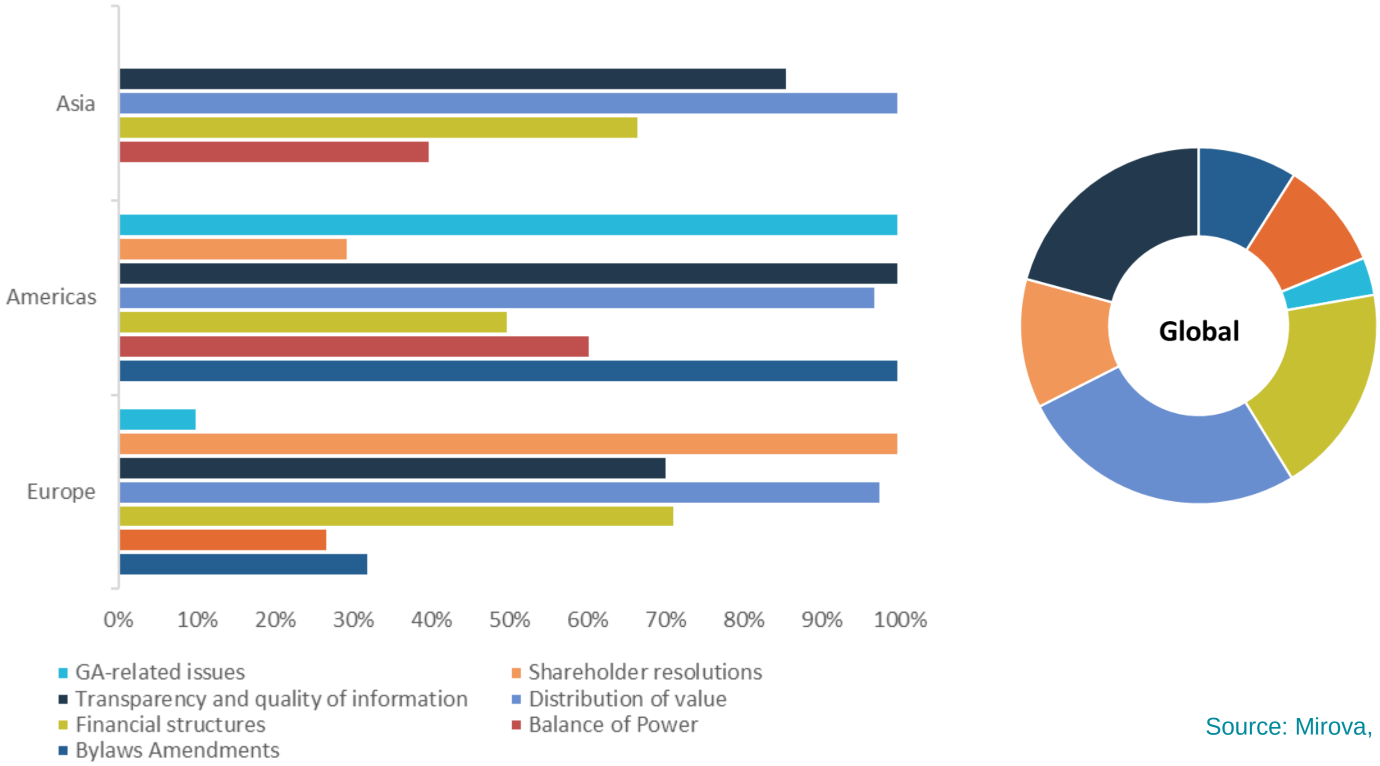
Source: Mirova, 2018

Resolutions Opposed by Subject

When we analyze projects, key topics for engagement are systematically defined. Once the investment is made, Mirova and those responsible for the project discuss these focal points to improve the project together. Additionally, when a project is evaluated by a committee, a request for transparency accompanies the project's analysis. This request, which is tailored to each individual project, is transmitted to the companies involved to encourage them to improve their systems for collecting and diffusing environmental and social information.

The percentage of resolutions that Mirova voted against is higher this year in Europe (32%) than in the U.S. (26%) or in Asia (29%), because of the variety of the themes presented at general meetings in Europe. For example, 89% of resolutions in the Distribution of Value theme and 87% of resolutions on the Transparency of Information theme were in Europe, Mirova often votes against resolutions within these two themes.

Figure 11: Resolutions Opposed in 2018 by Subject and Region



Source: Mirova, 2018

"31.5% - the average opposition rate (opposing votes and abstentions) for 2018, down from 36% in 2017

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 as their wages can impact whether they correctly exercise their responsibilities in the wider interest of the company and all its stakeholders.

In accordance with our voting policy, Mirova questions the legitimacy of any stakeholder having a say in the remuneration (in terms of dividends) of another stakeholder. Because of this, Mirova chooses to abstain from voting on resolutions concerning remuneration defined ex ante.

Mirova opposes resolutions on remuneration mechanisms and their implementation (remuneration reports and long-term initiatives for management/employees) which do not include environmental and social performance criteria.

1.4 Improving Green and Social Bonds

Mirova's engagement approach towards green, social, and sustainability bonds is based on the conviction that the consideration of extra-financial criteria during the investment process is essential for creating long-term value. By investing in sustainability bonds, Mirova can select entities and projects to invest in which will allow us to capitalize on the opportunities created by the transition towards a more sustainable economy, while also ensuring that environmental, social, and governance (ESG) criteria are considered.

''**51** companies engaged with

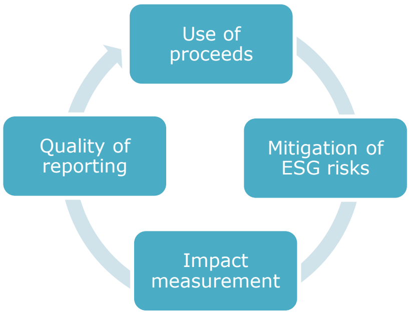
MARKET STATUS IN 2018

The sustainability bond market is still new and its practices are varied, particularly in terms of transparency. Throughout the year, we continued our dialogues with current and potential issuers about how to improve transparency in the market and how to move towards impact reporting. We also informed issuers of our expectations and worked to promote the establishment of a sustainability bond market which is well-structured and creditable.

Because the green bond market has now been active for a few years, more green bond reports are being published. This meant that the majority of our engagement work with issuers in 2018 revolved around improving the quality of reporting and the impact indicators used. Topics included clarifying what reporting entails as sometimes it wasn't clear if all of an issuer's green assets and activities were being included or just those funded by green bonds. We also discussed how to report impact as well as output indicators and methodologies used. For issuers new to the market, we focused on project selection criteria in order to ensure that potential projects would positively contribute to achieving various SDGs.

2018 was an interesting year, as it saw one of the green bond issuers change their strategic direction following a transaction which will be finalized in 2019. This was a first for the green bond market and it means there is little clarity regarding what exactly the bond will finance once the operation has been finalized. It is times like this when transparency and clear communication between the issuer and the investors is of utmost importance. Mirova has engaged with the relevant stakeholders to ensure that investors will be updated as soon as important information related to the green bond and the underlying assets becomes available. More information on this topic can be found in the "Engagement in Action" section below.

ENGAGEMENT APPROACH



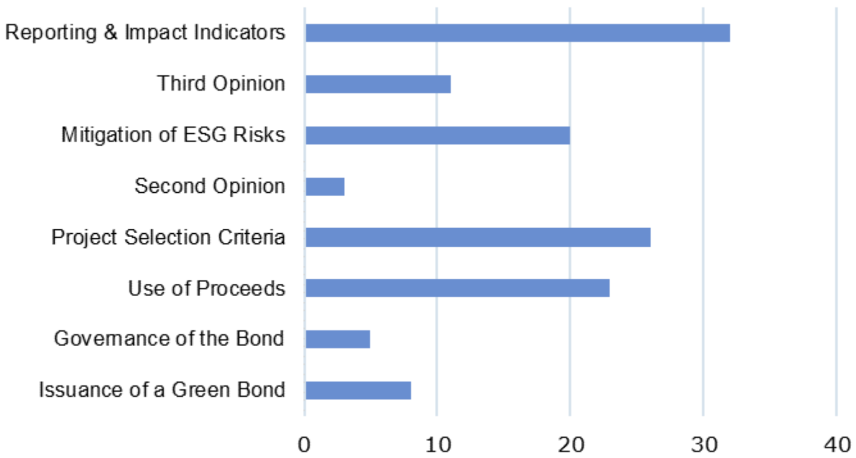
Use of proceeds We recommend that issuers clearly mark on the prospectus that proceeds from the bond issuance will be used to finance projects that create added environmental or social value. We strongly emphasize the need for clarity and quality in principles for allocating funds. The project selection criteria need to be clear and sufficiently restrictive to ensure that the projects financed will have positive environmental and/or social effects.

Mitigation of ESG Risks We encourage issuers of sustainability bonds to communicate the ESG risk reduction strategies associated with the project being financed. This is particularly important for projects that could have potential negative consequences if the environmental and/or social risks are not well managed.

Impact Measurement We encourage issuers to improve the way they measure the environmental and/or social impact of projects. We also encourage issuers to publish the methodologies they use to quantify these impacts so that we can better understand the overall impact.

Transparency and Quality of Reporting We encourage issuers to be very transparent regarding the traceability of funds raised by issuing sustainability bonds. To this end, we request that reports detailing financed projects be published at least annually. We strongly encourage companies to have these reports audited by an external third party.

Figure 12: Number of engagements on Green and Social Bond by Topic



Source: Mirova, 2018

Engagement in action: Innogy

In March, innogy announced that it will acquired by E.ON in a deal that will drastically restructure Germany's energy sector: E.ON will shift to focus entirely on energy networks and retail services, while RWE will acquire E.ON and innogy's renewable energy assets.

This raised questions regarding the fate of innogy's Green Bond, which previously financed exclusively renewable energies. Two scenarios seemed possible: (i) either the Green Bond stays with E.ON-innogy and the renewable energy assets are transferred to RWE, meaning that E.ON-innogy would need to replace those green assets from its own asset pool, or (ii) the Green Bond and the renewable projects that it funds would be transferred to RWE, which has a lower credit rating.

This level of uncertainty relating to the Use of Proceeds was not consistent with our vision of good Green Bond governance and risk management. During an in-person meeting, innogy responded that they had no visibility on this issue and confirmed that the two options described above were accurate. The company stated that it is confident it can replace the renewable assets financed via the Green Bond if they are transferred to RWE and the Green Bond is not.

We encouraged innogy to inform investors as soon as the issue becomes clearer. Citing upcoming changes in the Green Bond Principles designed to address changes in financed projects, we suggested that innogy produce a written document prior to the asset swap. The company stated that they are aware of the need for heightened reporting transparency about the Green Bond, and reiterated innogy's commitment to making sure that their Green Bond is in line with the Green Bond Principles.

Some time later, innogy offered more information about how the proceeds from the Green Bond will be used post-transaction. All the projects which are currently financed by proceeds from the bond will be transferred to RWE, while the proceeds themselves will be transferred to E.ON. The proceeds will be used to finance E.ON.'s eligible green projects including projects connecting renewables (>30 kW) to the grid, projects for coping with grid intermittency, and smart meter projects. Sustainalytics provided a second opinion which confirmed that these projects are eligible under innogy's initial Green Bond framework. However, innogy has not yet provided a list of the individual projects which will replace the wind power projects when the proceeds are reallocated. There has also been no attempt to assess the size of the pool of eligible assets, so it is still unclear whether there will be enough assets to require funding in the form of an 850m EUR bond.

Overall, we are confident that the proceeds from innogy's Green Bond will continue to be used to finance green projects. We nevertheless remain concerned that the new asset pool will be insufficient compared to the size of the bond and we hope for greater transparency at the project level from innogy in the future. If there is not adequate reporting once the deal is approved by the regulator and underway, we will resume our engagement efforts.

1.5 Responsible Infrastructure

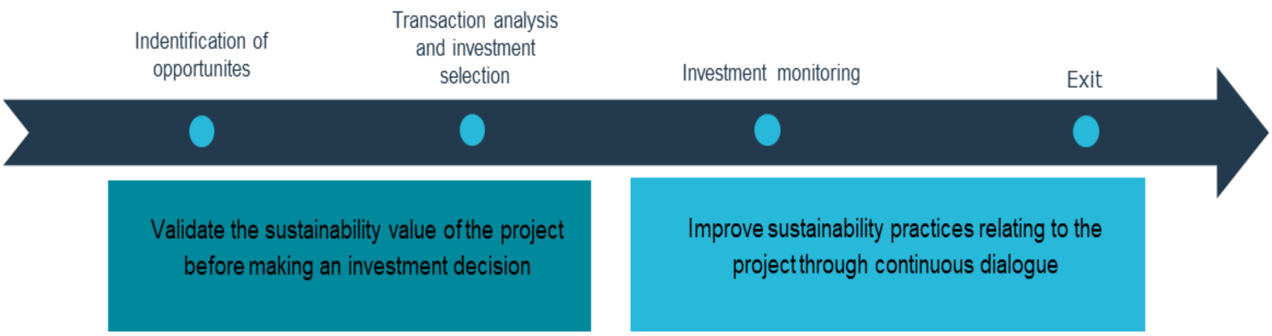
Mirova endeavors to prioritize projects that capitalize on opportunities created by the economic transition towards a more sustainable society while ensuring that environmental and social risks are managed. Our research team first examines whether a project will help to achieve relevant Sustainable Development Goals and then evaluates the environmental and social risks inherent to the project's life cycle.

Mirova's engagement approach for infrastructure projects is based on the conviction that financing renewable energy infrastructure and public-private partnerships is an efficient and concrete way to address sustainability issues in the real economy. However, in order to highlight the environmental or social benefits of a project for investors, Mirova needs concrete figures: long-term job creation for each project, CO2 emissions avoided for renewable energy projects, percentage of energy consumption reduced for energy efficiency projects, number of kilometers of additional lines for rail projects, etc. This practice of considering environmental and social criteria in the infrastructure asset class is still in its nascent stages. To encourage this approach, we engage with project leaders.

Integration of these issues into investment decisions for infrastructure projects is based on several factors:

1. Seeking out tools to finance the energy and societal transition, which requires targeting projects with high social and/or environmental value-added impacts,
2. Supporting public entities as they progressively integrate sustainable development criteria into calls for tender, and
3. Increasing responsible investment's impact with vehicles that facilitate improvement of traceability between the funds and the environmental and social benefits they create.

In 2018, Mirova continued to employ its infrastructure fund analysis method using the following engagement process:



Given the recent emergence of these issues, we have identified lines of improvement for all projects in terms of transparency and performance evaluation. The amount of information provided is sometimes insufficient for certain indicators. As a responsible investor, we wish to motivate our partners to increase the amount of information collected as well as the level of transparency of these indicators.

This approach is employed both directly, by project heads, and indirectly, though common initiatives with other investors.

DIRECT ENGAGEMENT WITH PROJECT HEADS

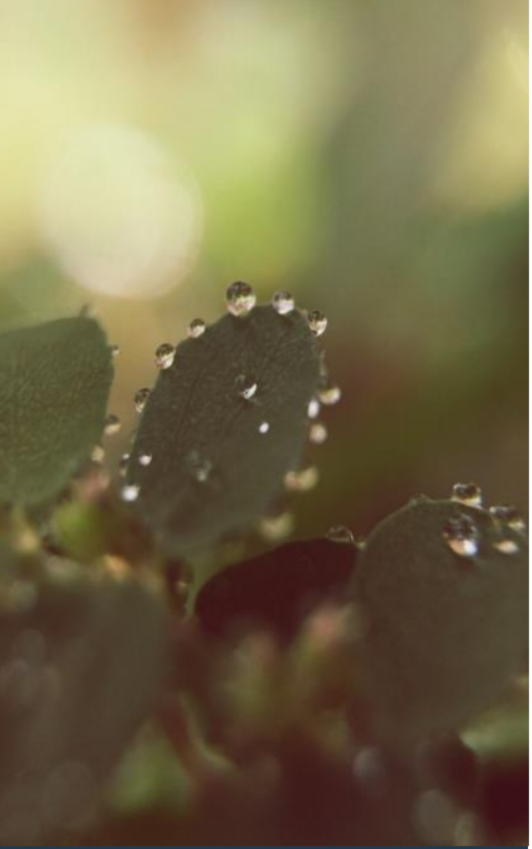
When we analyze projects, key topics for engagement are systematically defined. Once the investment is made, Mirova and those responsible for the project discuss these foci to find ways of improving the project together. When a project is evaluated by a committee, a request for transparency accompanies the project's analysis. This request, which is tailored to each project, is transmitted to the involved companies so they can improve the collection and diffusion of environmental and social information.

Engagement in Action: OsloFjordVarme

In 2018, Mirova invested in OsloFjordVarme, a company specialized in providing district heat through heat pumps in Norway. While the nature of the business is already very much in line with the Sustainable Development Goals, we sought to increase the transparency of the company's reporting regarding its environmental, social, and governance risk management systems.

To this end, we collaborated with the other investor involved to create a reporting framework specific to the asset, including both qualitative and quantitative elements related to the company's fossil fuel use, renewable energy use, biodiversity protection action plans, worker health and safety management systems, and more. We presented this framework to OsloFjordVarme, which was receptive to the idea and provided constructive feedback.

After amending the reporting framework slightly following feedback from OsloFjordVarme, the company has agreed to use it to provide us with a variety of environmental, social, and governance indicators as time progresses. This increase in transparency is in line with our investment principles and represents a step forward for the company.



2. COLLABORATIVE ENGAGEMENT INITIATIVES

2. Collaborative Engagement Initiatives

Collaborative engagement consists of 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. In order to strengthen the influence of responsible investors, engagement is undertaken in collaboration with others. The goal is to inspire issuers to make specific and measurable changes within a determined timeframe. Engagement can also be conducted to influence industry associations and/or public policies.

Goals

- Making **companies eligible for investment** that have been excluded from Mirova's sustainable investment universe and/or that of its clients until now due to poor environmental and/or social practices (e.g. engagement with the oil sector to push for portfolio decarbonization).

- **Improve transparency** and/or companies' practices regarding controversial subjects, so that companies remain eligible for investment (e.g. Opening a dialogue about a company's supply chain to encourage the company to adopt better practices relating to addressing human rights issues).

Mirova's Approach

1. Mirova's Collaborative Engagement Platform

In 2014, Mirova launched its own collaborative engagement platform, comprised of experts from Mirova's research team and representatives from clients and investors interested in collaborative engagement. Since then, Mirova has launched three engagement initiatives via this platform which address specific issues which require greater engagement on the part of investors. Over the years, Mirova has promoted the engagement objectives of these initiatives, including improved corporate practices and changes in the sectors involved.

2. Other Collaborative Initiatives

Other investors also create collaborative engagement initiatives. When the subject of the initiative is coherent with Mirova's strategy and identified priorities, Mirova signs engagement letters and open declarations of other investors.

3. PRI Steering Committees

Finally, Mirova is a member of one of the PRI investors working groups whose goal is to improve industry-wide practices. In 2018 Mirova contributed to 3 PRI-led initiatives.

Summary and Key Figures

MIROVA'S ENGAGEMENT PLATFORM

Supply Chain (pg. 38)

ICT Sector

- Since 2014, Mirova and its partners have sought to encourage IT companies to adopt practices ensuring that their supply chains are more sustainable.
- In 2018, Mirova continued to develop ties with partners and supported industry initiatives, while consistently sending companies feedback on their practices and expected improvements.

Textile Sector

- In 2014, Mirova began encouraging companies to espouse higher levels of transparency in their supply chain management.
- In 2018, Mirova continued its efforts to increase transparency regarding textile supply chains and to ensure that practices were in line with investor expections through its work with the Sustainable Apparel Coalition (SAC).

Arctic Oil Exploration (p. 41)

- Began in 2014, with the goal of encouraging increased operational transparency.
- In 2018, following the release of the investor statement in 2016, Mirova continued its discussions with both corporate players and policymakers promoting the Arctic moratorium.

OTHER COLLABORATIVE ENGAGEMENT INITIATIVES

‘’21 initiatives supported

‘’400+ companies engaged with

‘’10 social themes

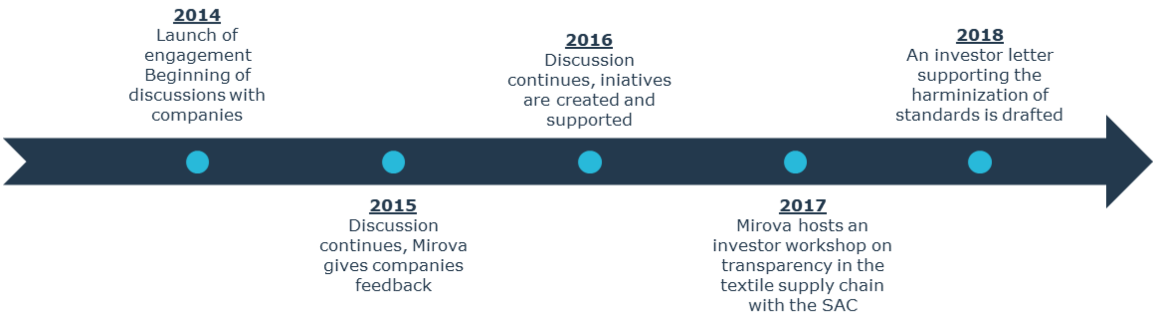
‘’11 environmental themes

‘’11 corporate governance themes

2.1 Mirova's Collaborative Engagement Platform

SOCIAL RISKS IN THE SUPPLY CHAIN

Social problems throughout the supply chain can present serious risks for companies. In the wake of certain events (suicides at Foxconn in 2010, Rana Plaza collapse in 2013), it has become clear that despite efforts to improve the situation, social problems are still present in these industries. These events highlight the urgent need for immediate and continuous action by governments, civil society, and the companies themselves.



Engagement Activities in 2018

Launched in 2014, the engagement aims to work with the textile and ICT industries to move towards a more sustainable supply chain that respects human rights and provides its workers with proper working conditions. After two years of discussions with companies, results showed that while the companies have in place the necessary mechanisms to encourage suppliers to adopt more responsible practices, minor and major controversies continue to unveil. This indicated the need for more systemic and collaborative measures that would require the participation of all actors involved. To make a real impact on their supply chains, textile and ICT industries need to move forward together and coherently.

Meetings were then held in 2006 with industry-wide initiatives: the Sustainable Apparel Coalition for the textile industry and the Responsible Business Alliance[1] (RBA, formerly EICC) for the ICT industry, to see how investors can play a proactive role in motivating the two industries to progress towards a more sustainable supply chain.

Mirova became the first investor member of the Sustainable Apparel Coalition[2] (SAC) in 2017 to be a contributing part of their Transparency Roadmap to 2020. While the RBA has not yet decided how they want to include stakeholders, Mirova has been able to communicate its transparency expectations from the sector through the participation in different conferences.

In 2018, Mirova continued to develop its ties and work with industry initiatives, while consistently sending companies feedback on their practices and the expected improvements.

[1] http://www.responsiblebusiness.org/

[2] https://apparelcoalition.org/

Textile

Since joining the Sustainable Apparel Coalition (SAC) in 2017, Mirova continues to work with the SAC towards their roadmap to transparency for 2020. Mirova is currently part of the Brand Module and the Transparency Stakeholder Working Groups.

The Brand Module is a transparency module aimed for brands (such as some companies in which Mirova is invested in) to show their progress in their sustainability journey. The questions asked in this module are currently being updated. The process started already 2017 where Mirova had provided initial feedback. For 2018, one of the goals was to get groups and organizations from outside the SAC to comment on the questions being asked before they are finalized in the beginning of 2020. Mirova facilitated this open consultation by being the point person whereby investors can provide their feedback. Mirova in turn consolidated this information and sent it to the SAC. The SAC is currently in the process of consolidating all the feedback received from the different stakeholders. The Brand and Retail Module should be finalized throughout the year, 2019.

The Transparency Working Group is working on the transparency roadmap to 2020 whereby brands and suppliers can share their sustainability scores as part of their sustainability journey. As part of this Working Group, Mirova together with other members that consists of brands, supplies and NGOs were consulted to create a strategy on engaging with stakeholders, reoccurring communication goals and events. The end result was a stakeholder event in October whereby different stakeholders gathered to share their view on what transparency should be and provided feedback on the SAC could help them attain this view.

> “*Our partnership with Mirova has been beneficial as they introduced us to the investor community – a stakeholder group of the industry until a few years ago were not in our radar. We greatly appreciate the support that Mirova has given particularly through the investor statement released this year. We look forward to continuing our collaboration with Mirova as we work towards a textile, footwear and apparel industry that is more transparent and built on sustainable practices.”*
>
> Baptiste Carriere-Pradal
> Vice-President of Transparency, Sustainable Apparel Coalition

Along with the work done with the SAC, Mirova together with another investor, MN, gathered 19 investors representing more than 3 trillion assets under management and advice to sign a statement of support. This statement of support was addressed to the European Commission as well as the Dutch Agreement on Sustainable Garments and Textiles, German Partnership for Sustainable Textiles, and the Sustainable Apparel Coalition. The statement supported the collaborative efforts being done towards increased alignment of due diligence framework with the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. The statement was well received by the organizations and should bring about further collaborations for 2019.

While industry level engagement such as the work we’re doing with SAC is important, it remains equally important that the connection with companies is maintained particularly to ensure that the Higg Index is fully adopted by the textile companies. Companies that are already part of the SAC are further encouraged to integrate the use of the Higg Index throughout their supply chain management. For companies not yet part of the SAC, Mirova is engaging with them to consider membership and use of the Higg Index as their primary tool.

ICT

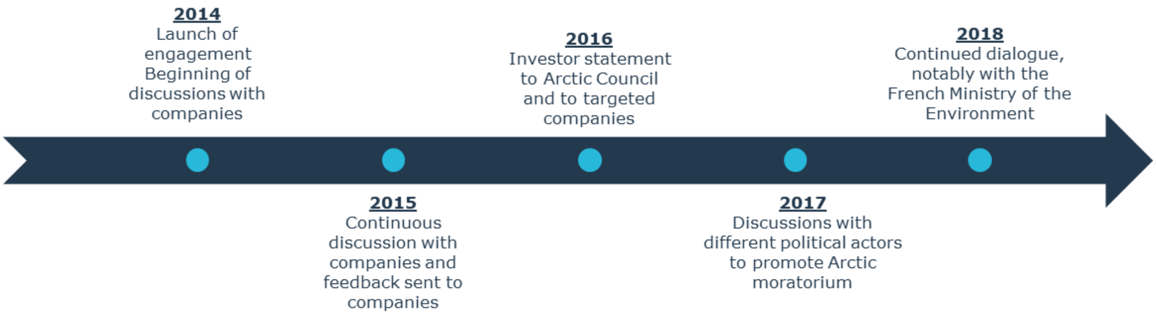
Considering our difficulties in linking dialogue with certain companies, we decided in 2016 to adopt a new strategy. Rather than contacting the company directly, we would try to communicate our messages through our participation to the Electronic Industry Citizenship Coalition (EICC), now called Responsible Business Alliance (RBA) to include companies outside the ICT industry that are exposed to similar issues (e.g. electric vehicles). We subsequently wrote a letter to Rob Lederer (Executive Director), on behalf of the platform, outlining our engagement's purpose.

The RBA continues to set the standards and to develop the tools supporting a responsible management of the supply chain throughout the ICT value chain. It counts over 140 members, among which Apple, Samsung Electronics and Microsoft. In 2017 and 2018, we have been active with it on multiple occasions, participating to events, acting as speaker at a session with the board and holding various conference calls with RBA representatives. In 2018, our efforts have been focused on encouraging the RBA to define a space for stakeholders within the initiative. Indeed, the RBA was founded by and for companies willing to mutualize their efforts on supply chain management and share audit results. Understandably, some of these companies are reluctant to open this initiative to outside parties. However, we believe investors, NGOs and other organizations may be of great help to this initiative. We could actively support their efforts by explaining our expectations and the main topics of importance that we have identified. Members of the RBA could also seize this opportunity to better communicate on their practices, achievements and goals.

While no specific working group has been created for investors and/or external stakeholders during 2018, the RBA has invited us to act as a panelist during its annual conference in April 2019 in Brussels. We will use this occasion to outline the importance of sound practices across the supply chain for Mirova as well as for the members of its engagement platform, and to discuss the intentions of RBA regarding the inclusion of stakeholders in the initiative.

OIL EXPLORATION IN THE ARCTIC

Looking back at the history of offshore exploration, the Arctic seems to be the final frontier for oil companies. However, the region still presents many challenges, especially for offshore oil extraction, where oil exploration has not yet started. As companies are moving extraction to increasingly risky areas, the possibility of an oil leak in the Arctic is impossible to predict quantitatively, and the consequences would certainly be dramatic. At the same time, regulatory constraints in the region are very high due to its extreme sensitivity. These combined factors call into doubt the economic feasibility of these projects. For investors, major questions remain regarding the level of risk.



Engagement Activities in 2018

Despite the volatility of oil prices and geopolitical tensions among Arctic region member countries, we are convinced that rapidly changing drilling technologies and the presence of abundant resources could revitalize interest in Arctic drilling. As responsible investors that have been engaging on the issue of offshore hydrocarbon exploration in the Arctic since 2014, we believe that oil and gas exploration and production in the region is at odds with the climate commitments that countries, including Arctic Council members, made in the Paris Accord. Considering the efforts shown by the Arctic Council members to strengthen the protection of the Arctic high seas through stronger regulation of commercial fishing, as well as the pledges made by political leaders of some Arctic States to enhance protection of the region, we decided to step up our engagement at the policy level.

In 2018, Mirova discussed options for pursuing Arctic engagement in France and in Europe with both public and private stakeholders. In this context, we met with members of the Ministry of the Foreign Affairs in Paris to discuss the French Arctic Roadmap and coordinate an engagement with the European Commission. We noted that since France is only an observer state, its ability to influence the Arctic Council's roadmap is rather limited. However, we will continue to participate in all existing local forums to protect the Arctic as well as to the collaborative engagement initiatives proposed by other investors in the field, and we will monitor the development of protection policies in the framework of the Arctic Council.

At company level, the Arctic continued to be a topic of engagement in our dealings with major oil and gas companies, especially those targeted by our initiative since 2014: ENI, Repsol, Shell, BP, Equinor (formerly Statoil) and ExxonMobil.

Since 2015, we have noticed less offshore activity in the Arctic, due to both economic and geopolitical factors (e.g. oil prices, increasing investment costs, sanctions against Russia). But none have committed to enhancing transparency beyond the existing level and none have committed to a voluntary moratorium on oil and gas drilling in the Arctic.

Total and Repsol share the basics of our philosophy around protecting the region, noting that they have no plans or interests in oil exploration and production in the offshore Arctic, but have not formalized this. Both companies still have licenses for onshore gas and/or oil development, which is not part of our engagement priorities given the lower level of environmental risks. These companies, as well as Shell, have also improved their transparency by providing lists of their licenses in the Arctic region. Others, including ENI and BP, indicate that they may be interested in Arctic exploration and production at a later date. They are confident that they have sufficient risk management capabilities to address their environmental and social impacts in this very sensitive region but have not provided any evidence and have little or no experience. Given the diversity of responses, we will continue to adapt the commitment to each company to foster an effective dialogue on offshore Arctic protection. However, due to a reduced activity in the region from the oil majors, we plan to strenghten our engagement towards the financial sector so as to push companies to stop financing these activities, both through investments and bank loans.

Requests made in the investor statement:

For policymakers:

- High Sea Arctic Areas (North Pole): the creation of an unlimited moratorium for all hydrocarbon exploration activities in the Arctic High Sea area,
- Sovereign Arctic: for Arctic states to consider national climate change mitigation commitments prior to renewing existing or granting any additional exploration licenses across their Arctic territories; common framework across the region for increased protection of areas of heightened ecological importance, independently from their legal status and based on a precautionary approach,
- For outstanding existing licenses: stricter, uniform operational standards for Arctic drilling across the rest of the Arctic.

For targeted oil and gas companies:

- Disclose the number and location of the licenses they hold in the Arctic with their expiry dates,
- Inform investors and other stakeholders of their intentions regarding the use and potential extension of these licenses.
- Commit to a de facto moratorium on offshore drilling in offshore icy waters of the Arctic region.
- Avoid all hydrocarbon exploration in the other regions of the Arctic where zones of heightened ecological importance have been identified, independently of their legal status based on a precautionary business approach.

Figure 14: Map of the Arctic with areas targeted by Mirova's investor statement

Source: Mirova, 2017

2.2 Other collaborative engagement initiatives

E Environmental S Social G Governance

S Access to Medicine Index (ATM)

Launch Date:
2012

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Signatory

Lead Organization:
Access to Medicine Index

Background and Objectives

Coordinated by the Access to Medicine Foundation, the ATM index ranks pharmaceutical companies' efforts to improve access to medicine in developing countries. Funded by the Bill & Melinda Gates Foundation and the UK and Dutch governments, the index has been published every two years since 2008. The purpose of the investor statement is to reaffirm the importance of access to medicine and to encourage pharmaceutical companies to take this issue into account for their growth strategies in developing countries. As a responsible investor, Mirova places great emphasis on this issue when selecting the companies in which it invests and integrates the index's analysis in its evaluation of pharmaceutical companies. Mirova also works closely with the access to medicine project team to improve its methodology; since the index was launched, we engaged the Foundation to broaden the scope of the index, which now also includes some types of cancer treatments and vaccines.

Activities in 2018

In 2018, Mirova continued engagement with Roche as lead investor, following the letter sent the previous year on behalf of 47 signatory investors to encourage them to participate in the index questionnaire for the 2018 raking. We conducted dialogue with the company and pushed for participation to the Index questionnaire, especially given that Roche did not participate to the 2016 ATM index. Following investors engagement and the Foundation's decision to include cancer treatments within the survey scope, the company decided to participate to the questionnaire for the 2018 ATM index. We praised Roche's decision as lead engagement investors and continue our dialogue with the company to improve action on such a crucial topic for the industry.

S Access to Nutrition Index (ATNI)

Launch Date:
2014

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Signatory

Lead Organization:
Access to Nutrition Index

Background and Objectives

Companies that are applying strong nutrition policies and practices globally are in a better position to reduce the risk of increasing food and beverage industry regulation and to take full advantage of changing consumer trends towards healthier living. The Access to Nutrition Foundation concludes that while some companies have taken positive steps since the last ranking in 2013, the food and beverage industry is moving far too slowly. Good nutrition policies and practices are integral to food & beverage companies' overall business and financial performance as well as long-term sustainability. The objective of this engagement is to determine with the companies how they integrate findings and recommendations of the ATNI into improving their performance on nutrition practices.

Activities in 2018 and Next Steps

In 2018, the Global ATNI was updated with certain changes particularly taking into consideration the product profile of the company which was not the case before.

Engagement dialogues with the company continue to be held considering the newly update ATNI. Progress will be measured based on their performance with the ATNI and will continue to push the companies cited to do better

S Facial Recognition Letter

Launch Date:
2018

Country Focus:
United States

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
Harrington Asset Management

Background and Objectives

According to multiple news reports Amazon has developed and is selling to law enforcement agencies, a facial recognition system called Rekognition. We are concerned such government surveillance infrastructure technology may pose a privacy threat to customers and other stakeholders across the country.

The recent experience and scrutiny of Facebook demonstrates the degree to which these new issues may undermine company value as the detrimental impacts on society become clear. While Rekognition may be intended to enhance some law enforcement activities, we are deeply concerned it may ultimately violate civil and human rights.

Activities and Next Steps

Mirova signed the letter which was sent to Mr. Bezos, Amazon's CEO, in June 2018.

G Antibiotics Overuse in Livestock

Launch Date:
2016

Country Focus:
UK & US

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Signatory

Lead Organization:
FAIRR Network

Background and Objectives

The antibiotics stewardship engagement is currently in its third and final phase, supported by 74 investors representing $4.9 trillion in combined assets. This engagement is focused on 20 global fast food sector and restaurant companies. We are asking companies to a) establish a comprehensive antibiotics policy to phase out routine, prophylactic use of antibiotics across all livestock, poultry, seafood, dairy and egg supply chains; b) specify clear targets and timelines for implementation and c) increase transparency by reporting on implementation including mechanisms to measure and audit the use of antibiotics in supply chains.

Activities and Next Steps

The engagement letters were sent to the target companies in mid-August 2018. The initiative received a 90% response rate, with meetings organised with two companies. These responses and meetings will directly inform the briefing report which will highlight company progress to date including best practice. This report will be published in April 2019 and following the results, the next steps will be determined.

E Arctic drilling in Wildlife Sanctuary

Launch Date:
2018

Country Focus:
North America

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
The Sierra Club

Background and Objectives

Financial regulators, analysts and other experts have endorsed the importance of climate risk analysis, noting that a carbon budget consistent with a 2°C target will render most fossil assets unburnable. Thus, any capital investments to pursue Arctic Refuge oil would be an irresponsible business decision, at the very time when we are transitioning away from fossil fuels. The initiative spurs from the US Administration's proposal to open the Arctic National Wildlife Refuge in northeast Alaska – a once pristine and protected area - to fossil fuel exploration. Concerned about the potentially serious threat to the local biodiversity that extraction activities could represent, investors thus gathered to send a statement to oil and gas that may potentially be involved in the activities.

Activities and Next Steps

A letter was signed by investors representing $2.5 AUM and sent to oil and gas companies with licenses in the area.

G S Behind the Barcodes

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
Oxfam

Background and Objectives

Oxfam released an investor statement that supports their cause to improve transparency and accountability within the sector. Notably, the investor statement asks that companies improve transparency on the sourcing of food, be more aware and act on the risk of human rights violations faced by workers in supermarket supply chains, guarantee safe working conditions and equal opportunities for women and fairly share the revenues in the food industry with those who produce our food.

Activities and Next Steps

The letter was made public on Oxfam's website. The initiative will last for three years and focus on a specific retailer at the time. During its first year, the campaign focused on WholeFood/Amazon and particularly on responsible seafood sourcing and human right issues in the supply-chain.

E G Climate Action 100+

Launch Date:
2017

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
AIGCC, Ceres, IGCC, IIGCC, PRI.

Background and Objectives

The Climate Action 100+ has been launched at the One Planet Summit and is backed by 225 investors (totalling $26.3 trillion in AuM). Climate Action 100+ is supported and co-ordinated by five partner organizations: Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC); and Principles for Responsible Investment (PRI). It builds upon the collaborative investor engagement pioneered since 2012 by the four organizations that together form the Global Investor Coalition on Climate Change. The initiative aims to secure commitments from the boards and senior management to: 1) implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk and opportunities; 2) act to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2-degrees Celsius above pre-industrial levels; 3) and provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios.

Activities and Next Steps

We continued to support the initiative signed in 2017, which focused on different companies, and we specifically followed the engagement with Renaults, Airfrance and Engie. Going forward the initiative aims at developing a benchmark to improve usefulness for investors.

G Facebook Letter

Launch Date:
2018

Country Focus:
United States

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
OpenMic

Background and Objectives

In light of the Cambridge Analytica scandal, a broad coalition of investors, racial justice, civil and human rights groups, and privacy and technology advocates calls on Facebook's largest shareholders to press the company to establish adequate corporate governance on longstanding issues regarding civil, political and privacy rights.

Activities and Next Steps

Mirova signed up to the broad coalition of 78 signatories representing over 60bn USD in assets under management and will continue to monitor the company's practices, particularly in relation to data privacy management.

E Support for the Cerrado Manifesto

Launch Date:
2018

Country Focus:
Brazil

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Follower

Lead Organization:
CERES and FAIRR

Background and Objectives

FAIRR has partnered with the steering committee of the statement of support for the Cerrado Manifesto such as Unilever and Tesco to build investor support for the Cerrado Manifesto. Released in September 2017 by over 60 Brazilian NGOs, including WWF-Brazil, and Greenpeace Brazil, the Cerrado Manifesto is a call for "immediate action in defense of the Cerrado by companies that purchase soy and meat from within the biome, as well as by investors active in these sectors." In October 2017, 23 global brands signed the Statement of Support ("SoS") for the objectives of the Cerrado Manifesto. The statement recognized the need to prevent further deforestation in the Cerrado to mitigate future risks associated with climate change and agricultural resilience in this important agricultural production region. Additionally, signatories of the statement also commit to working with local and international stakeholders towards this goal. Since its launch, over 130 global brands have signed on in support of the Manifesto's objectives.

Activities and Next Steps

In 2018, more companies signed the SoS and relationships with stakeholders like the GTC (Cerrado Working Group) and Chinese Meat Association were developed. Several guidance and frameworks are in their final draft phase, such as a theory of change to zero deforestation, an Implementation Roadmap and an investor expectations document.

In 2019, final phase that includes the implementation of these initiatives are expected, partially driven by the investors engaging dialogues with companies and stakeholders.

E Investor Decarbonization Initiative

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Follower

Lead Organization:
ShareAction

Background and Objectives

As a continuation of the broad engagement through the RE100 initiative back in 2017, the Investor Decarbonization Initiative starts from the understanding that with the ratification of the Paris Agreement, the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) and increasing scrutiny from institutional investors, companies are facing mounting pressure to address climate-related risks. Changes in technology and regulation are also providing new climate-related business opportunities. The initiative thus aims to secure commitments from companies to: 1) set science-based targets in line with the goals of the Paris Agreement; 2) set complementary energy targets in support of the development and delivery of science-based targets; 3) get a clear and unified engagement agenda to drive meaningful corporate commitments to decarbonization; and 4) devise a mechanism for investors to contribute to Sustainable Development Goals 7 (Affordable and Clean Energy) and 13 (Climate Action).

Activities and Next Steps

In 2018 letters were sent to 17 companies, and more will be engaged going forward.

E Investor Statement to O&G companies on Climate Action

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Follower

Lead Organization:
Newton IM

Background and Objectives

Following the Paris, agreement, 60 investors representing over USD 10 trillion in AUM signed an investor statement for the oil and gas (O&G) industry to clarify how they see their future in a low-carbon world. This should involve making concrete commitments to substantially reduce carbon emissions, assessing the impact of emissions from the use of their products and explaining how the investments they make today in energy sources and technologies are compatible and consistent with a pathway towards the Paris goal. In addition, investors urged policymakers to take clearer and more collective action on implementing regulation that will support the necessary investment in lower-carbon technologies.

Activities and Next Steps

The letter was published on the Financial Times in May 2018.

S Investor statement against gun violence in the US

Launch Date:
2018

Country Focus:
United States

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Follower

Lead Organization:
ICCR

Background and Objectives

In line with our policy that excludes certain types of weapon manufacturers (cluster munitions), and as responsible investors we supported North-American investors towards asking for increased responsibility of the industry involved in gun manufacturing and selling.

Following the latest mass shooting events in the US, where semi-automatic assault weapons were involved, the political debate around gun violence in the country has sparked again. In light of these events and of renewed investor attention towards the issue, we believe it is in line with our responsibility as investors to demand increased responsibility from the industry.

Activities and Next Steps

Mirova signed the investor statement calling gun manufacturers and retailers/distributors and companies with financial ties to these industries, to review their operations and supply chains and policies and take meaningful action on an issue of public safety.

E Open Letter on Climate to Power Companies

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Follower

Lead Organization:
IIGCC

Background and Objectives

Following the letter sent to oil and gas companies regarding their strategy to address climate change, the IIGCC decided to replicate the strategy for the utilities sector in light of a new European policy announcement that the European Commission is aiming to achieve carbon neutrality by 2050.

Activities and Next Steps

Mirova signed the letter which the IIGCC used as a core document for setting up engagements taking place through the Climate Action 100+, to whom Mirova is a signatory, in Europe and beyond.

S Parental Leave

Launch Date:
2018

Country Focus:
United States

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
Zevin AM

Background and Objectives

The investor engagement targets companies that fail to review, disclose, and improve their approach to paid family leave. More and more large corporations are finally taking action in response to public advocacy by employees, as well as pressure from investors, including shareholder proposals urging companies to address critical caregiving needs. Therefore, the statement urges companies to strive for best practice to realize all of the benefits of paid family leave.

Activities and Next Steps

Companies were sent the statement and engaged by the investor coalition representing USD 130 billion.

E S Roundtable on Sustainable Palm Oil (RSPO)

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Equity and Fixed-Income

Participation:
Supporter

Lead Organization:
Ceres

Background and Objectives

Back in 2015, many organizations supported a letter - backed by global investors - urging the Roundtable for Sustainable Palm Oil (RSPO) to implement a no deforestation, no peat, and no exploitation standard. While the RSPO has made progress, it still lacks a clear and enforceable standard that assures sustainability. In 2018 the RSPO “Principles and Criteria (P&C)” standard was up for formal review for the first time since 2013 and the next formal standard review is scheduled in 2023. Ceres coordinated an investor sign-on letter to close the remaining gaps in the proposed standard and advocate for strong auditing and enforcement practices to ensure the RSPO’s P&C are put into practice as intended.

Activities and Next Steps

Two letters have been signed to close the remaining gaps in the proposed standard and advocate for strong auditing and enforcement practices, Ceres helped in the process to ensure the RSPO’s P&C are put.

E

Sustainable Protein

Launch Date:
2016

Status:
Open

Country Focus:
Global

Asset Class Coverage:
Equity and Fixed-Income

Participation:
Signatory

Lead Organization:
FAIRR Network

Background and Objectives

The sustainable protein engagement is currently in its third phase, supported by 74 investors representing over $5.3 trillion in combined assets. This engagement is focused on retailers and manufacturers, and in this phase has expanded to 25 companies. The initiative is asking the companies for disclosure of information with regards to a) company strategy and b) tracking and reporting on protein diversification, with a focus on how the company will align with a 2° scenario, in line with TCFD recommendations.

Activities and Next Steps

The engagement letters were sent to 25 target companies in mid-August 2018. 22 written responses were received out of the 25 target companies (88% response rate). Additionally, 9 meetings with companies to discuss their responses and approach to protein diversification in greater detail were organized.

S G

WDI - Workforce Disclosure Initiative - phase 2

Launch Date:
2017

Country Focus:
UK and Europe

Asset Class Coverage:
Equity and Fixed-Income

Participation:
Signatory

Lead Organization:
Share Action

Background and Objectives

The Worker Disclosure Initiative (WDI) is a project modeled by the Carbon Disclosure Project that aims to make available comparable information on how companies are treating their workforce (both direct and throughout their supply chain). The main objective is that the targeted companies improve disclosure annually to allow investors to use this information into the investment process. The themes to be covered are the following: workforce composition, workforce development, workforce engagement and workforce stability. The WDI is funded by the Department for International Development (DfID), the UK's counterpart to France's AFD.

Activities and Next Steps

Letters have been sent to encourage companies to use the WDI disclosure platform in 2018.

2.3 PRI Engagement Platform Initiatives

PRI Principles for Responsible Investment

G

Corporate Tax Responsibility

Launch Date:
2017

Country Focus:
Global

Asset Class Coverage:
Equity and Fixed-Income

Participation:
Supporter

Number of Engagements as Co-Lead Investor:
2

Background and Objectives

Aggressive corporate tax planning may represent a major loss for countries and their population and may result in negative financial and reputational implications for companies. Greater corporate transparency across areas such as tax policy, governance and financial information would help investors better identify these risks. The gathering momentum for tax reforms across jurisdictions offers a great opportunity to initiate a collaborative engagement on responsible corporate tax. This engagement will provide opportunity for investors to engage with high-risk companies to enhance corporate income tax disclosure and encourage the development of responsible corporate tax strategies and relevant implementation.

Activities and Next Steps

The collaborative engagement was launched towards the end of 2017. In 2018 Mirova attended several calls with targeted companies, namely Sanofi and Novartis where we co-led the engagement. Further engagements will take place also in 2019.

E Investor Working Group on Sustainable Cattle and Soy

Launch Date:
2017

Status:
Closed

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
Ceres & PRI

Background and Objectives

Known previously as "Deforestation in Cattle and Soy" the initiative started from an investor statement in 2017 highlighting major risks related to cattle-driven deforestation in the supply chain. Deforestation driven by soft commodities is a major source of emissions in this sector, and soybean production is the second-largest soft commodity driver of tropical deforestation. Globally, more than one million square kilometers are now dedicated towards growing soybeans. While we recognize the important role of agriculture and soybean production to economic development and the livelihoods of farmers, we are also concerned that the environmental and social issues associated with unsustainable soybean production could have a material impact on companies that source the commodity.

We expect companies to demonstrate commitment to eliminating deforestation within their entire soy and cattle supply chain.

Activities and Next Steps

Out of the initial number of companies targeted only 18 companies received the engagement letter and 17 have responded. Meetings with 15 companies were held throughout the year. Companies have acknowledged the necessity to strengthen their practices in their cattle and soy supply chains to completely eliminate deforestation. However, not much action is yet to be seen.

E Water Risk in the Agricultural Supply Chains

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Equity and Fixed-Income

Participation:
Supporter

Background and Objectives

In 2014, the first phase of the engagement focusing on water risks in the agricultural supply chain was launched. The objectives of this phase were to improve the disclosure of water risks affecting agricultural supply chains and improve the risk management practices of such areas. The engagement was closed in 2017 with a public closure benchmark being the result. Following the engagement, 84% of the companies engaged with improved their disclosure on managing water risks in the agricultural supply chains. Nevertheless, there is still room for companies to improve.

This phase 2 launched in 2018 will build upon the outcomes of phase 1 and will focus on the laggard companies.

Activities and Next Steps

The second phase of this engagement focuses on laggard companies to take their performance up to the level of their leading peers. Food, beverage, apparel, retail and agricultural products companies will be encouraged to identify, implement appropriate mitigation measures and disclose on water risks in agricultural supply chains. An interim evaluation to consider company responses will occur during 2019.

3. ADVOCACY TO IMPROVE & DEVELOP THE RESPONSIBLE INVESTMENT MARKET

3. Advocacy

Summary and Key Figures

Advocacy is conducted to promote our vision within the responsible investment market. We speak with national and transnational regulatory bodies as well as with RI professional organizations to encourage specific regulations and standards for sustainable finance.

GOALS

Mirova promotes the development and structuring of a sustainable finance market that serves the needs of the economy. More specifically Mirova:

- **Provides** investors with the means to identify the needs of sustainable investment,
- **Removes** obstacles to the development of the sustainable investment market and provides the tools needed to do so, and
- **Strengthens** sustainable investment within the financial industry.

MIROVA'S APPROACH

1. Developing Sustainable Finance

- Member of and very active contributor to the EU Commission's High-Level Expert Group (HLEG) on sustainable finance works, intermediary and final reports,
- Chair of and contributor to Finance for Tomorrow and the Paris Europlace Green & Sustainable Finance Initiative which organized the Climate Finance Day, and
- Supportor of university research and financial supportor of the Energy and Prosperity academic Chair.

2. Publishing Papers

- Drafted a publication for Finance for Tomorrow explaining the stakes of the HLEG Interim report.

3. Supporting Climate Action & Disclosure

- Took part into public consultations such as the Task Force on Climate-Related Financial Disclosures (TCFD),
- Supported several investor statements and letters calling for more climate-related action and TCFD disclosure guidelines which were sent to:
  - G7 and G20 countries
  - EU Ministry of the Environment
  - U.S. President
  - World Leaders

’’29 industry forums and associations

’’6 partnerships and coalitions

3.1 Advocacy at Mirova

As a leader in the European responsible investment market, Mirova is committed to developing sustainable finance and a strong responsible investment market through lobbying and advocacy. Mirova's engagement approach regarding regulatory bodies is driven by its investment philosophy, which promotes strong commitments combining economic, environmental, and social value creation. The primary goal of Mirova's advocacy is to contribute to the development of a sustainable finance industry that has positive impacts on the environment and on our society.

HOW IT WORKS

Since 2016, Mirova has developed an advocy strategy tailored to its responsible investment policy and aimed at promoting a regulatory and marketplace environment favorable to the development of sustainable finance.

This work includes:

1. Drafting and/or contributing to dedicated publications and public reports, interacting directly with public authorities and contributing to conversationd at the French, European, and international levels (responding to public consultations, participation in work groups, etc.) and
2. Supporting professional responsible investment organizations and their objectives as well as university research.

Mirova publishes its advocacy goals, as well as its responses to public consultations, on its website. Mirova is also registered on the European Union's Transparency Register and on the new French Transparency Register (Répertoire des représentants d'intérêt de la Haute Autorité pour la Transparence de la Vie Publique - HATPV) since 2017.

Figure 15: Mirova's Engagement Objectives

Focus 1

Establish a market environment favourable to the development of finance with a positive environmental and social impact.

1. Demonstrate the need for reallocation of capital to long-term societal needs and to innovate in integrating environmental and social externalities into the market's operations and investment products.
2. Promote a definition of responsible investment that corresponds to investment with a positive, long-term, and committed impact.
3. Promote development of green and sustainable financial centres in France, Europe and internationally

Focus 2

Provide investors with the means to identify the needs and opportunities of sustainable investment.

1. Promote regulations on increased ESG and climate reporting based on a life cycle analysis for each asset class, allowing investors to choose their investments based on relevant and complete sustainable development criteria.
2. Promote access to markets and investors for projects and companies with positive environmental or social impacts, particularly via:

(i) development of public investment plans to implement international sustainable development goals (Paris agreement, UN's Sustainable Development Goals)
(ii) development of private companies and projects with positive impacts and facilitating their access to market financing (including for small and medium companies).

Focus 3

Remove obstacles and create tools for developing the sustainable investment market.

1. Promote long-term sustainable investment, particularly for institutional investors (fiduciary duty, terms, etc.).
2. Encourage the creation of high-quality standards or labels to favour investment products with positive impacts to reinforce their quality and utility, and avoid the risks of greenwashing.
3. Encourage transparency and disclosure to measure investors' contributions to the sustainable development goals by evaluating the environmental and social impacts of their portfolios.

Focus 4

Strengthen sustainable investment's position in finance.

1. Make sustainable investment financially attractive both for investors and issuers.
2. Encourage innovation and collaboration with stakeholders (public, government institutions) to facilitate the financing of projects with positive sustainable impacts.

3.2 Investor Statements signed in 2018

E Environmental S Social G Governance

E S G A just transition: integrating social dimensions into investment action

Launch Date:
2018

Country Focus:
Global

Participation:
Follower

Lead Organization:
Principles for Responsible Investment (PRI)

Background and Objectives

The critical need for the transition to be both fast and fair is recognized in the Paris Agreement. The evidence shows that the shift to a resilient, low-carbon economy will boost prosperity and be a net driver of job creation. There will be transitional challenges, however, for workers, communities and countries as this shift takes place.

To address this, investor strategies to tackle the growing threat of climate change need to incorporate the full range of environmental, social and governance (ESG) dimensions of responsible investment. As fiduciaries, investors can make an important contribution to achieving a just transition, as stewards of assets, allocators of capital, and as influential voices in public policy. For investors, the just transition provides the framework for connecting climate action with inclusive growth and sustainable development.

The just transition is a new and emerging agenda for investors. The task for investors is to develop their own plan of action based on the areas outlined in this guide. One way to start this process is to sign an investor statement to support a just transition that has been prepared by the Principles for Responsible Investment (PRI).

Activities in 2018

Statement supported / signed

G CDP investor statement to EU Policymakers on the future of corporate reporting

Launch Date:
2018

Country Focus:
Global

Target:
EU leaders and legislators

Participation:
Follower

Lead Organization:
CDP

Background and Objectives

The European Commission's Action Plan "Financing Sustainable Growth" is a major step towards driving private capital flows into sustainable investments and thus towards sustainable businesses and a long-term, resilient financial system. This CDP investors statement calls on EU policy makers to implement a fit-for-purpose framework of corporate reporting that is consistent with investor information needs, by addressing the following issues:

- Mitigate financial risk
- Create a level playing field across the EU
- Standardize sector-specific metrics
- Policy coherence between investor duties and corporate reporting

Activities and Next Steps

The investor statement has been signed and sent to EU leaders and legislators in order to support their work in the implementation of a coherent sustainable finance action plan.

E Investor Statement to the EU Commission on e-mobility and renewable energy

Launch Date:
2018

Country Focus:
EU

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
Europea, Commission

Background and Objectives

The EU budget should help building the infrastructure needed for a cleaner energy and transport sector, shifting investment in high-carbon transport projects to zero carbon activities. Supporting cleaner and smarter systems for transport and energy will improve the efficiency of both sectors while making Europe a healthier place to live, fostering its industrial leadership in clean technologies, and creating local and skilled jobs. It will support European companies to drive innovation by building new competitive and future-proof business models.

Activities and Next Steps

Mirova participated in the writing of a joined letter which calls for more EU investment where it's needed; notably in zero-emission mobility and more renewable energy in the EU grid.

E Investor Statement to Governments on Climate Change

Launch Date:
2014

Country Focus:
Global

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Follower

Lead Organization:
The Investor Agenda

Background and Objectives

Global warming will increase likelihood and intensity of natural disaster that will jeopardize investments and citizens. Strengthening investor confidence is necessary to further invest in the low-carbon economy to keep global warming under 2 degrees compared to pre-industrial level.

The initiative, launched in 2014, aims to push nations to implement policy measures to achieve their nationally determined contributions. They will also ask governments to develop focused and targeted long-term climate plans to align with the Paris Agreement's goal.

Activities and Next Steps

Letters have been signed and sent in 2018 from over 300 institutional investors.

E Investor Statement of Support for a Low Carbon Economy

Launch Date:
2018

Country Focus:
Global

Asset Class Coverage:
Fixed Income

Lead Organization:
Ceres

Background and Objectives

The Investor Statement of Support for a Low Carbon Economy aims to promote the development of infrastructure and capital projects resilience to climate change and the reduction of greenhouse gas emissions particularly through green bonds (when applicable). It aims to send a message that climate risk matters when developing and financing long-term capital projects. The signatories of the statement believe that green bonds and other green asset classes represent an investment opportunity to fulfill our fiduciary duty to clients and beneficiaries in a responsible and sustainable manner. The signatories further support the continued development of the market and will continue to invest in green bonds when consistent with investment objectives.

Activities and Next Steps

Investor statement was released on the Global Climate Action Summit.

Investor statement on supply chain modern slavery legislation in Canada

Launch Date:
2018

Status:
Closed

Asset Class Coverage:
Equities and Fixed-Income

Participation:
Supporter

Lead Organization:
Share Canada

Background and Objectives

Several controversies surrounding human rights violations throughout companies' supply chains have brought about the urgent need for these issues to be addressed. Transparency and disclosure is an important step towards a more sustainable supply chain. To ensure that all companies are properly taking these subjects into consideration and have the proper measures in place, governments have been putting through legislations to require companies to do so: the UK's Modern Slavery Act, France's Law on the Duty of Vigilance, the Netherlands' Child Labour Due Diligence Law and California's Supply Chain Transparency Act. The purpose of this statement is to ask the Government of Canada to pass a supply due diligence mandate during its current mandate.

Activities and Next Steps

The investor statement was released.

3.3 Involvement with the financial community

Participation in projects and associations with professional and international organizations:

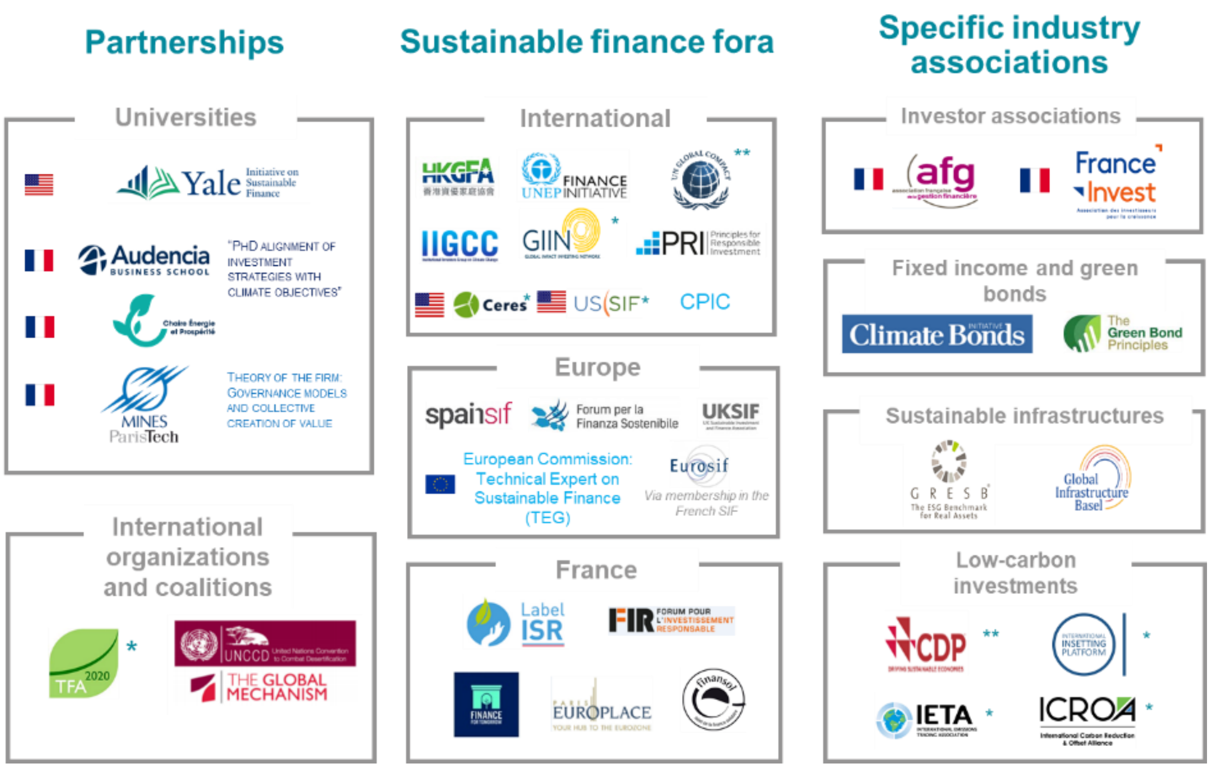


Figure 16: Associations and Forums Mirova Collaborates With

SUSTAINABLE FINANCE FORA, INTERNATIONAL	
CERES	Member of CERES and the Investor Network on Climate Risk. CERES is global organization that acts to motivate businesses to act on climate change. The Investor Network on Climate Risk is a grouping of over 120 institutional investors that address climate change while investing in low-carbon opportunities.
IIGCC	Member of the Institutional Investors Group on Climate Change, a forum for collaboration on climate change, which brings together more than 120 institutional investors.
PRI	Signatory of the Principles for Responsible Investments, which seeks to promote responsible investment practices internationally. Mirova commits itself to respect and assure its commitment to the 6 principles. Signatory organizations are obliged to respond to an annual questionnaire and to publish a follow-up report. Mirova is also a member of the "E&S Steering Committee", "Fracking Steering Committee", "Human Rights Steering Committee", as well as the "Nominations Steering Committee".
UNEP FI	Member of the Investment Committee of the UNEP Finance Initiative, which seeks to bring together the financial sector and the United Nations Environment Program. Mirova participates in the "Positive Impact Finance" workgroup, as well as the "Investment Commission" and "Sustainable Stock Exchange Steering Committee" groups.
UN Global Compact	The UN Global Compact is an initiative that encourages firms to implement sustainable and socially responsible practicies, as well as report on their implementation. The initiative is the largest of its kind with its 13000 members across 170 countries.
Hong Kong Green Finance Association	The Hong Kong Green Finance Association (HKGFA) brings the expertise of financial institutions and green businesses in Hong Kong.
CPIC	The Coalition for Private Investment in Conservation is a coalition of actors from the private sector and NGOs that seeks to address the issue of the lack of investments in conservation efforts, through the identification of possible investments in this field.
GIIN	Althelia is a Member of the Global Impact Investing Network, which seeks to promote impact finance at the internationally.
US SIF	Member of the US Forum for Sustainable and Responsible Investment, a group that advocates developing sustainable and responsible investment throughout all asset classes
SUSTAINABLE FINANCE FORA, EUROPEAN	
Technical Expert on Sustainable Finance (TEG)	Following the contribution of Philippe Zaouati to the EU High Level Expert Group on sustainable finance, the EU Commission has released its action plan on sustainable finance. In the framework of its implementation, Mirova has been again selected through its expert Manuel Coeslier, portfolio manager, to contribute the EU Commission's Technical Expert Group (TEG) on sustainable finance, to help define the characteristics of low-carbon benchmarks.
EUROSIF	Mirova's policy and advocacy officer represents the French Social Investment Forum at the EUROSIF board.
Spain SIF	Spainsif is an association that aims to promote sustainable and responsible investment in Spain, whose main mission is to encourage the integration of environmental, social and good governance criteria into investment policies. Mirova is one of the 69 members of this association.
Italian SIF	The Italian Sustainable Investment Forum has the mission to promote the awareness and the strategies linked to sustainable investments, with the aim to encourage the integration of environmental, social and governance criteria into financial products and processes. Mirova is a member of this association.
UK SIF	UKSIF is the membership network for sustainable and responsible financial services. Mirova is a member of this network.
SUSTAINABLE FINANCE FORA, FRANCE	
SRI Label Committee	The SRI Label is a French investment label that provides savers and investors with a greater level of clarity on socially responsible investment funds. The comitee is in charge of assuring the well functioning of the label and its evolution.
Paris EUROPLACE	Paris Europlace is a French association whose objective is to promote and develop Paris as an international center of finance. Through the "Paris Green and Sustainable Finance Initiative", the group is actively working to promote the development of sustainable finance in France.
Paris Europlace	Paris Europlace is a French association whose objective is to promote and develop Paris as an international center of finance. Through the "Paris Green and Sustainable Finance Initiative", the group is actively working to promote the development of sustainable finance in France.
FRI	The French Social Investment Forum ("Forum français de l'Investissement Socialement Responsible"). Mirova participates in the CorDial initiative, a platform for dialogue with companies on issues related to Sustainable Development and Corporate Social Responsibility. Mirova also participates on the board of the FIR as well as the research committee.
FINANSOL	Finansol is an association that works with the promotion, defence and analysis of solidarity finance in France.
Green Bonds	
ICMA - GBP	Mirova participates in ICMA's Green Bond Principles, which seeks to create unifiying standards for the green bond market through transparency and disclosure. Mirova also participates in the Board and executive committee of the group, as well as the working groups "Defining Green", "Impact Investing" and a working group on social bonds.
CBI	Member of the Climate Bonds Initiative, an organization that seeks to develop the green bond market in order to reduce the cost of capital for projects fighting climate change.
Sustainable Infrastructure	
GISB	Mirova supports and is a member of the Global Infrastructure Sustainability Benchmark, which seeks to develop standardised tools and methods for comparing ESG practices in infrastructure investments.
GRESB	Member of the Global Real Estate Sustainability Benchmark, a global association that provides members with extra-financial data in order to properly assess real estate and infrastructure assets.
Investor Associations	
AFG	The Association Française de la Gestion Financière brings together players in the French asset management industry and promotes their interests. The association is also dedicated to the promotion of ESG issues through the work of a dedicated committee, of which Mirova is a member.
AFIC	Mirova is a member of the Association Française des Investisseurs pour la Croissance, which is a group that connects French asset managers. Members of the AFIC are actively engaged in financing local growth in France through investing in SMEs.
Low-Carbon Investments	
CDP	Signatory, through Natixis, of the Carbon Disclosure Project, which seeks to improve the quality of carbon/climate information disclosed by issuers.
IETA	The International Emissions Trading Association (IETA) is a non-profit business association, established in 1999 to serve businesses engaged in market solutions to tackle climate change. Mirova is a member of the association through our subsidiary Althelia.
ICROA	Through our subsidiary Althelia, Mirova is a member of the International Carbon Reduction and Offset Alliance (ICROA), a non-profit organisation made up of the leading carbon reduction and offset providers in the voluntary carbon market.
Insetting Platform	The platform gathers companies that share a same approach aiming at balancing the company with its ecosystem through environmental programs, transparency, a rigorous methodology and information sharing. Mirova is a member of the platform through or subsidiary Althelia.

3.4 Specific 2018 Activities

In 2018 Mirova continued to contribute to the reflections of regulators and market players on the development of appropriate tools and frameworks to promote sustainable finance, with specific contributions at the EU and French levels.

Canfin-Zaouati report for the creation of France Transition

In July 2018, Philippe Zaouati, CEO of Mirova and Chairman of Finance for Tomorrow, and Pascal Canfin, France Executive Director of WWF, were assigned a mission to produce a report for the French Ministry of the Economy Bruno Lemaire and for the French Ministry of the Environment Nicolas Hulot (later François de Rugy). The objective was to explore the opportunity to further develop in France derisking financial instruments (guarantees, equity, quasi-equity…) that enable public financing to foster private investments and financing for sustainability.

The report was drafted by two rapporteurs, Laurene Chenevat, Mirova's advocacy officer, and Guilain Cals, Economist at ADEME (French public institution to support the energy and ecological transition), under the supervision of Philippe Zaouati and Pascal Canfin. It was formally submitted to the ministers and to two Secretaries of State in December.

The report supports the development of a "green Juncker Plan" for France through a dedicated budget (French and European if possible) and the strengthened collaboration of several public finance institutions under a common brand and initiative named "France Transition". The proposal is now being examined by the ministries in charge in order to consider the modalities for its implementation.

The report is publicly available on the websites of Finance for Tomorrow and the WWF France.

European Commission Action Plan on financing sustainable growth

In December 2016, the European Commission unveiled the composition of a High-Level Expert Group on Sustainable Finance (HLEG), which has been working on recommendations to draft a comprehensive EU strategy on sustainable finance throughout 2017. The group consisted of 20 leaders across civil society groups, the financial sector, and academia. Philippe Zaouati, CEO of Mirova, was selected as one of these experts, confirming Mirova's leading role in sustainable finance.

The recommendations of this group were released in January 2018 and have strongly inspired the EU Commission Action Plan on financing sustainable growth published in March 2018. Mirova has strongly supported this initiative and has been following closely its implementation by EU regulators.

In particular, Mirova has been again selected through its expert Manuel Coeslier, portfolio manager, to contribute the EU Commission's Technical Expert Group (TEG) on sustainable finance, to help define the characteristics of low-carbon benchmarks.

Several issues have been under close scrutiny, in particular in order to ensure that the EU action plan does not only prevent greenwashing but also demands transparency and change from the financial sector as a whole, and that the tools and standards developed would be usable by asset managers and investors.

Next steps: Mirova will keep following the EU sustainable finance package negotiations, in order to support its high quality in terms of sustainable impact and its usability for financial market players.

Chairmanship of Finance for Tomorrow (Paris Europlace)

In November 2016, Paris EUROPLACE – the Paris marketplace association whose objective is to strengthen and promote Paris as a financial center – published the Green and Sustainable Finance Initiative, a report coordinated by Mirova. With this report, Mirova sought to illustrate the weight of the financial marketplace in Paris in sustainable finance, and what measures can be implemented to advance it further. The report's 15 recommendations led to the creation of Finance for Tomorrow, the Paris initiative for sustainable finance. Since its creation, the initiative has been chaired by Philippe Zaouati, CEO of Mirova.

In 2018, the initiative has organized its annual event, the Climate Finance Day, and worked to differentiate the Paris marketplace, reinforce the synergies among sustainable finance stakeholders, organize the European and international reach of Paris as a green and sustainable financial center. The initiative has now 9 concrete and ambitious working groups, including a Permanent Policy Commission co-led by Mirova, which contributes to fostering public-private dialogue on sustainable finance.

For more information: www.financefortomorrow.com

French "PACTE" law

Mirova has advocated actively to include more "green finance" proposals in the framework of the French "PACTE" Act (Action Plan for corporate Growth and Transformation) drafted in 2018. The objective was to strengthen the offer of green, SRI and solidarity-based products in life insurance contracts, especially through labeled products: France has the chance to have several labels (SRI label, TEEC label or green label) that can be used to earmark investments towards responsible or sustainable products, ensuring that a certain level of quality on sustainability aspects is guaranteed.

3.5 Supporting University Research

In line with our goal of promoting sustainable finance and a new kind of corporate governance, Mirova supports various research initiatives.

SUPPORT FOR TWO UNIVERSITY CHAIRS

Mirova supports two university chairs:

The Energy and Prosperity (Energie et Prospérité) academic Chair was created in 2015 to inform decisions made by the public and private entities steering the energy transition. The Chair's research is related to the effects of the energy transition on the economy (growth, employment, debt), different industries (transportation, construction, energy production, finance), and associated financing issues. Hosted by the Risk Foundation, the Chair is supported by the ADEME, Air Liquide, the French Development Agency, the Caisse des Dépôts, Mirova, Schneider Electric, and SNCF.

Theory of the Firm. Models of Governance & Collective Creation. (Théorie de l'entreprise. Modèles de gouvernance & Création collective) Chair.

This Chair is directed by Blanche Segrestin at the Centre de Gestion Scientifique at the MINES ParisTech School. The Chair's research essentially deals with a vision of the company as a collective creation and revamping models and mechanisms for fair and solidary governance. Mirova is associated with research articles published by the chair's students on governance issues.

Published studies include:

- Refonder l'entreprise (Reforming the Company) (B. Segrestin and A. Hatchuel, 2012), which received various awards including the 2013 Prix Syntec for the best work in applied management research,
- L'entreprise, point aveugle du savoir (The Company, a Blind Spot) (co-directed by B. Segrestin, B. Roger, and S. Vernac), and
- La Société à Objet Social Etendu, un nouveau statut pour l'entreprise (The Company as a Comprehensive Social Object, A New Status) (B. Segrestin, K. Levillain, S. Vernac, A. Hatchuel, 2015).

The chair added a new field of research as of October 2015: shareholder engagement.

SPONSORING YALE UNIVERSITY

In 2018, Mirova began a partnership with Yale University related to sustainable finance. The aim of the initiative is to bring together three different schools: Legal, Business and Forestry and to provide investors and companies with a map of environmental "hot spots" for better environmental assessment, with a focus on data quality. As of now, three different projects have been identified:

Project 1: Measuring the environmental and social impact of companies and investments on a local scale (e.g. CO_2 emissions, water use, etc.). This project includes an input/output model and a report on the resources available for mapping companies' impacts. The methodology is drawn from the Product Social Impact Life Cycle Assessment (PSILCA) and is applied to the environmental impact. The goal is to help companies with their due diligence and the investors with their engagement activity.

Project 2: Research on the applications of machine learning and "natural language processing" in ESG analysis. This project aims to respond to the following questions: What is the impact? Is the information relevant? Is it biased?

Project 3: Undertaken in collaboration with the OECD, this project will focus on developing criteria for an index that measures how closely private equity investments align with the SDGs and will examine different investment sectors and countries.

Appendix

Individual Engagement Process

The engagement undertaken by Mirova's teams is conducted for *core* assets and for client accounts that have chosen to participate in the engagement strategy. This engagement is based on ESG assessments of issuers and/or projects and resolution analysis conducted by Mirova's responsible investment research team.

The engagement process used for companies' ESG analysis occurs in 2 separate phases: ESG assessment and dialogue. For the exercise of voting rights, the process has 3 phases: communication of the voting policy, dialogue, and resolution analysis. Mirova has also developed specific engagement processes for green and social bonds and infrastructure.

Preferred Means of Engagement

Direct dialogue is Mirova's preferred means of conducting continuous engagement. This dialogue consists of letters and emails to various contacts in the company informing them of possible improvements and actions expected on the part of the company in order to improve their ESG practices.

ESG ASSESSMENT ENGAGEMENT PROCESS

Phase 1: Assessing ESG Practices

Over the course of the year, Mirova's research team follows up with *core* companies in our portfolios regarding the quality of their ESG practices according to various sources of information, including:

- Publicly available data (annual sustainable development reports, academic research, UN reports, news outlets, etc.),
- Periodic exchanges with stakeholders (companies, unions, NGOs, the scientific community (through our partnership with the University of Cambridge)), and
- External research (financial or extra-financial brokers, extra-financial rating agencies, proxies).

This keeps our ESG opinions up-to-date, enriches our analyses of resolutions prior to exercising voting rights, and allows us to continue finding ways in which companies can improve their practices to keep up with constantly-improving standards and changes in French regulations.

Phase 2: Dialogue

When assessing ESG practices, Mirova's research team contacts the companies in question to better understand the risks they are subject to, as well as the opportunities provided by sustainable development issues. The team seeks to challenge their CSR policies and the quality of their governance practices.

At the end of these exchanges, when the CSR assessment is finalized, the analysts send a letter to the company containing their primary suggestions for improvement.

The analysts remain in constant contact with these companies, regularly meeting with their contacts to keep up with changes made and to remind them of our expectations regarding best practices. These exchanges may become public if important practices are revealed to be deficient.

This constant exchange has even made it possible for Mirova's teams to anticipate future risks and identify "complicated" situations which require focused engagement activity. ESG assessments can be positively or negatively affected by results of these engagement processes.

ENGAGEMENT APPROACH FOR THE EXERCISE OF VOTING RIGHTS

For Mirova and its clients' primary positions, a specific engagement strategy is implemented before general meetings to encourage companies to make progress in their practices. At the same time, the potential of previously identified opportunities for improvement is reviewed and changes in company practices are monitored.

The engagement process has 3 phases:

Phase 1: Dissemination of the Voting Policy

Before the voting season, Mirova sends its voting policy to all companies in its *core* universe. This policy includes Mirova's primary positions and those of its clients, informs companies of its voting principles, and anticipates dialogue on subjects that will be addressed at the general meeting.

Phase 2: Dialogue

Before Mirova exercises its voting rights, its Voting and Governance division analyzes proposed resolutions and identifies the subjects that Mirova will focus its engagement efforts on based on information from a variety of source. These sources include information published by the company, analyses by proxy and rating agencies and brokers, as well as ESG analyses conducted by the Extra-Financial Research teams.

A dialogue is then established (either by the Voting and Governance division or at the company's request) on key governance issues identified by Mirova, as well as environmental and social issues identified during the ESG assessment.

This dialogue occurs either in the form of face-to-face meetings, telephone conversations, or email exchanges. These exchanges put the Voting and Governance division in contact with various representatives, from Investor Relations managers, to legal and governance officers, to Board presidents.

Phase 3: Resolution Analysis

At the end of the dialogue process, the research team publishes a recommendation according to the extent to which the engagement goals were achieved.

- If the engagement goals were achieved, a positive voting recommendation will be issued, and the engagement process ends.
- If the goals were only partially achieved, a positive voting recommendation may be issued, and the engagement process will continue after the general meeting.
- If the engagement process did not succeed, a negative voting recommendation could be issued along with goals for more extensive engagement.

For clients that have delegated the exercise of their voting rights to Mirova, teams will determine recommendations and rules for engagement according to the voting rules established ahead of time with the client.

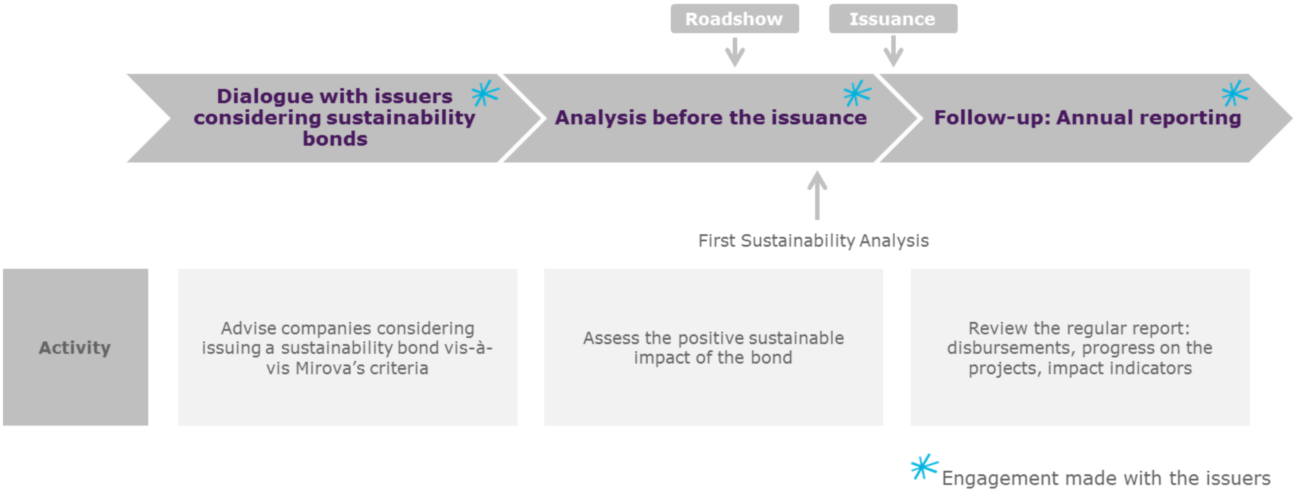
For clients that have delegated the execution of their voting and governance engagement policy to a proxy advisor, Mirova's teams will communicate the results of the dialogue and their voting recommendations, which may be useful to clients determining how to vote.

At the end of the process, analysts inform the companies of Mirova's vote, specify which measures taken or announced by the company were judged to be satisfactory, and provide a list of key points to focus on improving.

ENGAGEMENT APPROACH FOR GREEN AND SOCIAL BONDS

To better structure this young market, Mirova's teams are committed to continued dialogue with current and potential green and social bond issuers.

We conduct our engagement activity in three phases:



Source: Mirova, 2018

Phase 1: Engagement with Companies Planning to Issue Sustainability Bonds

Mirova regularly participates in conferences and meetings to engage in dialogue with issuers that have yet to issue green or social bonds to encourage them to do so. For issuers with a medium-term plan to issue, Mirova encourages them to maintain high standards in terms of clarity of fund use and transparency.

Phase 2: Engagement Before/At Time of Issuance

All environmental and social bonds being considered for investment by Mirova are analyzed by the research teams. During the evaluation process, Mirova's research teams stay in contact with issuers to better understand the risks they are subject to and opportunities presented by the issuance of their bond. This is also a key time at which Mirova can encourage the issuer to improve the environmental and social quality of the bond, particularly in terms of transparency and impact reporting.

Phase 3: Engagement During Annual Reporting

As transparency is a particularly important aspect of ensuring the integrity of green and social bonds, Mirova's teams systematically review the annual reports of the bonds held in Mirova's portfolios.

ESG assessments can be influenced by the results of this engagement activity following exchanges with the issuer and a review of the reports.

Collaborative Engagement Process

PRINCIPLES

The goal of collaborative engagement is to incite positive change in companies regarding a specific ESG issue. The primary characteristics of this approach are as follows:

Precise

Engagement targets a specific significant ESG problem related to sustainable development or governance issues which the company is exposed to due to its sector, location, or practices.

Measurable

Well-defined engagement actions are associated with predetermined and measurable objectives. Assessment criteria are defined before the action plan is implemented.

Achievable

Engagement activity focuses on encouraging companies to achieve realistic goals over a specified time span.

Mirova joins the steering groups of initiatives led by the PRI and signs engagement letters and statements open for signature by other investors when the engagement themes correspond to its sustainable development priorities.

The Engagement Platform

The engagement platform is comprised of Mirova's experts and client representatives. It is coordinated by Mirova's Responsible Investment Research Team.

<u>What it Does:</u>

The engagement platform directs and tracks the progress of the engagement strategy agreed upon by the institutions represented by the platform as it's implemented. It also suggests actions to take if the engagement stategy fails.

<u>How it Works:</u>

The engagement platform meets once or twice yearly to define its engagement strategy and evaluate engagement actions. Ad hoc meetings can, however, take place throughout the year in the case of an important event that requires urgent action.

PROCESS

The platform's collaborative engagement process occurs in three phases: planning, dialogue, and evaluation.

Phase 1: Planning

The planning phase consists of defining the scope of the engagement and the actions to be conducted during a defined engagement cycle according to the defined engagement policy.

This preliminary work is presented to the engagement platform, which then decides:

- The subject, goals, tools that the engagement process will focus on; these goals are limited in number so that they can be monitored and remain achievable.
- The list of assets involved;
- The action plan;
- The ways in which the results of the engagement will be measured.

Platform members can decide to focus on some or all of the defined engagement actions according to their awareness of the issue and their priorities.

Phase 2: Dialogue

At the initial stage of engagement, Mirova's teams make a written request for a meeting to discuss the chosen engagement issue with operations teams or Board members on the behalf of investors that have decided to join the initiative. Mirova's teams then begin a dialogue which client representatives are free to participate in if they so choose. This dialogue can take the form of face-to-face meetings, phone conferences, or letters.

At the end of the dialogue process, Mirova's teams send a letter to the company with feedback on the dialogue, including a list of suggestions for improvement. The teams then monitor changes in company practices. If necessary, further exchanges regarding these changes may take place.

Phase 3: Evaluation

At the end of the engagement cycle, an evaluation is conducted and results are established.

There are three possible outcomes:

- **The engagement goals were achieved** → The asset is removed from the platform's scope of engagement.
- **The engagement goals were only partially achieved** → The engagement process is reviewed in committee to decide if the cycle will be extended. Extension of the engagement cycle primarily translates to establishing other means of engagement through investor statements, membership in financial center initiatives to influence industry practices, etc.
- **The engagement goals were not achieved** → Recommendations are given to investors that participated. Each investor is then free to decide how to use this information.

PREFERRED MEANS OF ENGAGEMENT:

The means of engagement used by the platform are:

- Preparation of summaries of the state of affairs regarding the issues targeted,
- Establishment of a continuous dialogue sometimes including investors sending engagement letters to companies regarding their practices and transparency,
- Establishment of a dialogue with regulators (legislators, professional associations, etc.),
- Publication of investor statements addressed to companies and regulatory bodies (governmental or professional organizations), and
- Direct participation by Mirova on behalf of the platform in initiatives or professional associations seeking to improve company practices.

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