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#06

Creating Sustainable Value

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Investing in sustainability

An affiliate of: NATIXIS INVESTMENT MANAGERS

Environment - Social - Governance: a new investor's Bill of Rights?

ESG—standing for Environmental, Social and Governance. This barbaric acronym is having a day in the sun. It would be easy to look no further than asset management's fundraising figures showing that ESG has not only gone mainstream but become the most dynamic 'asset class' of the 2020 markets. But let's take a step back and, beyond this variably sincere adherence to a fad that has become politically de rigueur, recall that this trend, which has its origins in protest, stems from multiple and interrelated crises.

E. Environment. The environmental revolution has gradually ascended the lists to achieve top billing worldwide. The inglorious end of the Trump era should put an end to the United States federal government's isolation; President Biden has taken steps to re-join the international community as part of the Paris Climate Agreement. Beyond the climate emergency, environmental issues more broadly are at the forefront of leadersconcerns. The recent One Planet Summit, held on 11 January at the Elysée Palace and dedicated to biodiversity, clearly indicates that the environmental question is now being addressed in its entirety. The topic of biodiversity will undoubtedly be a main focus for SRI[1] managers this year. However much remains to be done, the Climate theme is now launched: initiatives and commitments are flourishing, while portfolio carbon footprints are seeing the light in ever greater numbers. Efforts to take biodiversity into account in investment decisions, however, remain in their infancy. This is due to the complex subject matter: there is no biodiversity 'currency' comparable to the tonne of CO_2-equivalent, used in climate finance, and issues may remain local and impossible to offset against each other. Meanwhile, investment opportunities are more difficult to capture. Still today, few listed companies can claim to have a positive global impact on biodiversity, whereas the champions of a low carbon economy are finally emerging. We should not let these difficulties deter us. Investment strategies focused on unlisted companies and projects, initiatives to measure the biodiversity impact of listed investments, equity investments in listed green start-ups: Mirova fully intends to play a leading role in promoting the development of a green economy.

S. Social. The health crisis has brutally monopolised the world stage. Confronted with our frailties, we all sought to invent the post-Covid world before more modestly hoping to regain the pleasures of the before times... When the masks come off, what will remain of our virtuous resolutions? Will we, for instance, succeed in limiting our business trips, endorsing work-from-home schemes, investing in our health systems and caring for our youth commensurately with the sacrifices imposed on them to preserve their elders? In its investment strategies, Mirova will sustain its concern for the social practices of companies as much as for their environmental conduct. To this end, the company has chosen to adopt B-Corp status in order to anchor good social practices in its operations.

G. Governance. To call our liberal democracies fragile is by no means to cry wolf: Capitol Hill suffered nothing less than an assault in January, albeit a clumsy one. The half-baked attempt at a putsch washed up in Washington. There will of course be a hunt for and prosecution of perpetrators, including perhaps former President Trump himself. But make no mistake, the poison runs deep. Inequalities are reaching a climax and threaten to destroy the social compact on which our democracies rest. Here too, business has a role to play. Policies optimised for tax avoidance and deflationary pressure on wages (except for executives whose interests are aligned with those of shareholders focused exclusively on short-term profit maximisation) are profoundly unjust. Mirova is committed to combating the most deleterious practices on this issue of fair value distribution through unstinting shareholder engagement.

ESG is trendy and politically correct, but how many truly implement it with an awareness that it is not a matter of assuaging one's conscience, by merely avoiding the most spectacular and high-profile controversies, for instance? The challenge is mindboggling: finance must reinvent itself in order to give its limits to a globalised and extremely financialised capitalism, which not only no longer keeps its promises to democratise authoritarian regimes thanks to the virtues of soft trade, but which is also becoming corrosive for our democracies.

1. Socially Responsible Investing

ESG. Ultimately, this barbaric acronym comes down to Liberty—Equality—Fraternity. A new revolution is under way. It can only be non-violent if we undertake it with courage and sincerity. Let's get to work. Best wishes to all for the year ahead.

FOCUS Has the Western model lost its compass?

The U.S.-China trade war is dead, long live the U.S.-China trade conflict!

The United States presidential election surprised some observers who already did not fully understand how the 2016 result came to be. The outgoing president held on very well indeed. A record number of votes were cast for him, even in population segments that the Democrats imagined were automatically in their camp. Biden cannot afford to forget this, as Trump's 74.2 million voters did not disappear the day he left the Oval Office, and his successor will have to work to meet those of their implicit needs that are clearly legitimate. These voters represent almost half the country, and it is part every president's duties to also work for those who did not support him.

Might this explain Biden's early statements and his firm stance towards the trade practices of the People's Republic of China? No doubt. Moreover, the trade war that Trump supposedly launched against the Middle Kingdom had in fact started, admittedly in a more restrained manner, during Obama's second term. The residents of the White House come and go, but the greater interests of the nation remain. However, it appears to a growing proportion of North Americans, including its elites, that President Clinton's decision to begin the process of including China in the WTO (World Trade Organization) may have been based on a miscalculation regarding the true extent of its disadvantages, particularly in terms of deindustrialisation, loss of technological advantage and, more prosaically, the transfer of wealth to a rival that would seek its share of access to natural resources and, of course, its own area of economic influence. As a reminder, the US trade deficit with China was close to $620 billion in 2019—and not attributable to basic products alone, but also to increasingly competitive manufacturers of cars, trains and airliners such as BYD[2], Geely, CRRC[3] and Comac[4] —firms the West can still look at with a remnant of disdain, but not without fear.

2. For Build Your Dreams
3. For China Railroad Rolling Stock Corporation
4. For Commercial Aircraft Corporation of China (China's commercial aircraft company)

Where an economic conflict is a political conflict and a half…

The break over trade goes hand in hand with a parting of the ways in terms of model. As a reminder, American elites long saw in China, not only a huge market and an ally of convenience vis-à-vis the USSR (a role that the rehabilitation of Deng Xiaoping amplified), but a kind of crusade on behalf of Western values. Some went so far as to construct scenarios in which the country might, as its market opened, embark on a path leading peacefully to democracy. When the sympathetic, pragmatic Deng Xiaoping came to power a few years later, he further reinforced this impression. Today, they are disappointed. China's leaders, of course, never intended to follow such a path, which they consider dangerous for the Communist Party and for the health of their nation. They remain convinced that the humiliations of the 19th century were largely due to the weakening of the Manchu dynasty's power, as well as to the adoption of free trade imposed through cannon fire by British and, to a lesser extent, French troops. Not only has China become an economic and geostrategic rival with a potential that not even the USSR had for long (military capabilities excluded), it also proposes a political counter-model that is all the more threatening since it now has significant success to its credit, notably in the management of the Covid-19 crisis.

Will globalisation (long sought and defended by the United States, which has become less tolerant of its deleterious effects) give way to a bi-polar world with one side under Chinese domination, the other under North American control? There is no way of knowing at present, as opposing forces will manoeuvre to try and avoid this scenario. Foremost among these is Germany, an ally of both China and the United States, as well as companies that have set up all or part of their production bases in Asia and are reluctant to repatriate them to the West and even financial institutions, which automatically benefit from flows induced by the globalisation of trade.

ESG : from business model to overall model?

The USSR had to give up its empire because the United States had orchestrated the drying up of its foreign currency resources, but also (and even more importantly) because it failed to sell its societal model. After the 1950s and 1960s, this model began to lose its aura among the Western proletariats, while many Soviet citizens envied (rightly or not) the supposedly greater prosperity and freedom in countries that did not apply socialism.

If the United States and its allies want to contain the appeal that the Chinese counter-model increasingly has, even on seemingly illiberal democracies, they will no doubt have to once again make their own model appear, if not the best, then at least more attractive compared to that proposed by their competitor. However, this does not seem possible so long as the degradation of the living environment, social inequalities and the democratic crisis undermine the West from within.

Because there can be no mistake, they do undermine it: the ugliness of the urban outskirts and the obsolescence of public facilities that affect many Western countries, the social tensions that are expressed in various ways but are spreading almost everywhere as a result of an impoverishment fuelled by the relocation of low-skilled jobs to Asia, the poor representativeness of political and media figures who no longer seem to be concerned with the same issues as entire sections of the population… all of this will have to be resolved. It is a prerequisite, because the Chinese model, as repulsive as it may remain in some respects, does have several assets. And its authoritarianism, its meticulous intrusions into the lives of citizens, its disregard for the demands of any minority, even the most reasonable, are for many merely small concessions in order to enjoy a healthy level of security, modern infrastructure and strong growth for a people that has regained its pride, once lost, as well as its drive.

In a sense, the USSR forced capitalist countries to take care of their working classes by introducing systems of social and medical coverage, among many other rights. Companies had taken their part in this, even in the United States. And it will have to be done again: again, states have to play their role, and companies must do the same. Working to adhere to ESG principles offers one avenue:

• **respecting** employees' working environment as well as the living environment of the population;

• **ensuring** social equality for employees, in particular by eliminating excessive pay gaps that are not always justified by economic rationality or differences in productivity or skills;

• **paying** shareholders without jeopardising companies' economic capital.

This will become essential to restore the attractiveness of the Western model, which has also been criticised for its faults. A societal model cannot dominate without being attractive: has the American way of life still got it?

Macroeconomics trends

2020, a record year for records

The year 2020 was exceptional in many ways. In particular, it was marked by:

- **a very short but extremely violent recession** that affected almost all parts of the globe and sectors in the throes of the crisis, with a major impact on both services and manufacturing;
- **unprecedented monetary policy responses,** with $8 trillion of Quantitative Easing (QE) in 2020 and $5 trillion projected for 2021;
- **unprecedented fiscal stimulus plans** averaging 4% of GDP on a global scale, distributed via support for businesses and employees, a pooled European recovery plan in disregard of budgetary dogma, etc.;
- **extreme economic and health divergences** across the globe: recovery in China, recession in Europe and the United States;
- **an explosion of social inequalities** accelerating previously established trends (e-commerce, teleworking, pressures of digitalisation...), etc.

In the markets, we saw the shortest bear market[5] in history (a single month, as compared to an average of 14) followed by the fastest rebound (four months as compared to 22) with wide disparities in performance across sectors and investment styles.

As a reminder, we positioned ourselves as early as March on a rebound in risky assets, basing our opinion on: i) attractive valuation levels, ii) our expectation of massive support from central banks combined with extraordinary fiscal stimulus plans around the world and iii) the a priori transitory nature of the health crisis due to the prospect of effective treatments for addressing Covid-19.

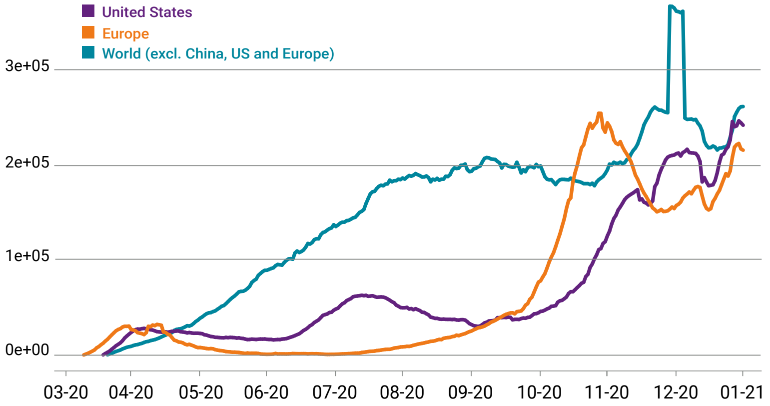
Vaccines are now available, political risks have largely receded (United States elections, Brexit) and recovery plans are in place. Meanwhile, markets have rebounded strongly, especially in recent months despite the pandemic's unabated toll. So, what is the outlook for 2021? What advantages do the markets hold that would allow them to retain their momentum?

2021: an end to the health crisis?

The epidemic continues to spread throughout the world affecting an ever-increasing number of people. In Europe, certain countries, such as the United Kingdom and Germany have recently had to drastically increase health measures to forestall the exploding case rate. In the United States, the situation continues to deteriorate, putting pressure on the healthcare system. In Asia, the epidemic seems to be better under control, although Japan is facing a resurgence of cases, while China has just confined 18 million people to Hebei province due to the emergence of a new cluster, the first since July. According to official figures, 600,000 new cases of Covid-19 are reported worldwide every day, for a total of 92 million cases recorded since the beginning of the epidemic. Deaths stand at around 11,000 deaths per day, with an official toll to date of 1.9 million deaths.

Fortunately, the horizon should brighten as the year advances thanks to broader distribution of vaccines. As a reminder, Pfizer, followed by Moderna and then Astrazeneca, announced in November that they had developed vaccines with efficacy exceeding 90%. Vaccination campaigns began in most developed countries as early as the end of the year, following approval by relevant government authorities. Despite a sluggish start in the Eurozone

GRAPH 1 – NUMBER OF NEW COVID-19 CASES IN EUROPE AND THE UNITED STATES, 7-DAY MOVING AVERAGE

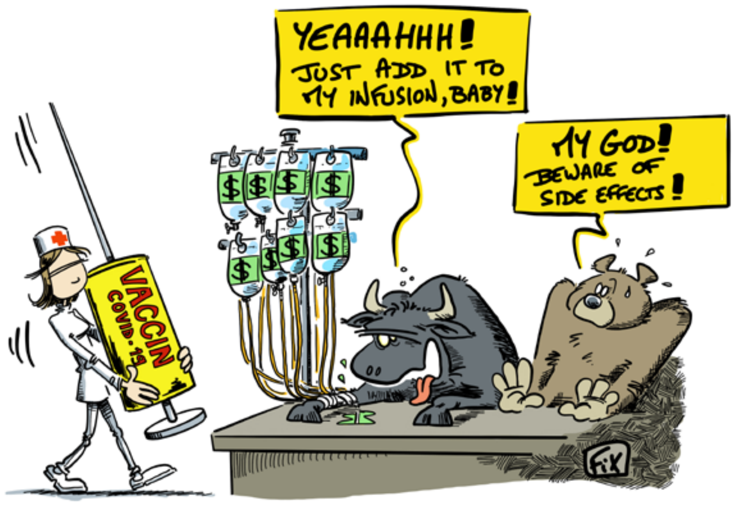


Source: Johns Hopkins University, Les Cahiers Verts de l'économie

5. Period of falling stock prices

compared to the United States and the United Kingdom, which showed greater momentum, we are convinced that a rapid ramp-up will follow, given the stakes involved in controlling the pandemic. In short, major developed countries have ordered ample stocks of vaccines; this should make it possible to first vaccinate those at risk, reducing pressure on hospital systems, and then to target herd immunity in a second phase.

Of course, certain risks remain: the potential emergence of a new variant of the virus which would make the vaccine less effective is of special concern (in this respect, the British and South African, or even Brazilian, mutations need to be closely monitored), as are side effects, the challenge of ensuring acceptance by the population, the duration of protection conferred by vaccination, etc.



Macroeconomic balance sheet and outlook

Absent any unpleasant surprises on the health front, the year 2021 looks very promising from an economic standpoint.

Overall, the manufacturing sector held up well in 2020, thanks to strong demand for durable goods. While value chains remain disrupted by the epidemic, notably due to longer delivery times, the outlook remains positive as evidenced by survey data, with new orders showing robust growth. The services sector, on the other hand, especially personal services, continues to suffer. Job losses persist for lack of a recovery in sectors most affected by the pandemic, although the buoyant resilience of financial and business services partly compensates for this drag on employment.

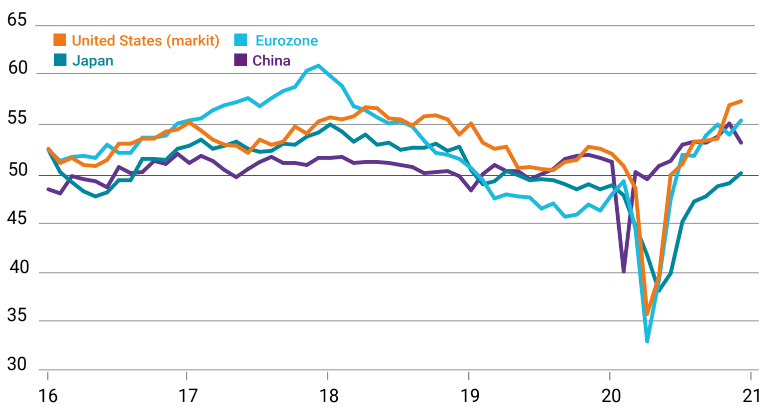
Budgetary measures to support income (United States) and employment (Eurozone) provided strong support for household spending last year. In both zones, these policies engendered surplus savings equivalent to several points of GDP (5% of GDP in France), constituting a genuine reservoir of growth for 2021, when life returns to normal after the health situation stabilises.

Similarly, the rise in the Eurozone's unemployment rate has been largely contained, in view of the scale of the contraction. Returning to the levels seen at the beginning of 2018 (8.3% at end November and 7.2% in April, the low point of the year).

Moreover, business remains fairly springy in China, with growth driven by both domestic and external demand, the latter benefiting from an acceleration of global trade.

On the whole, the macro outlook seems very favourable for 2021, with growth momentum expected to rise sharply in Q2 and Q3, as distribution of the vaccine leads to a return of consumer and business confidence, bolstered by entire sections of the economy reopening, and combined with a continuation of monetary and

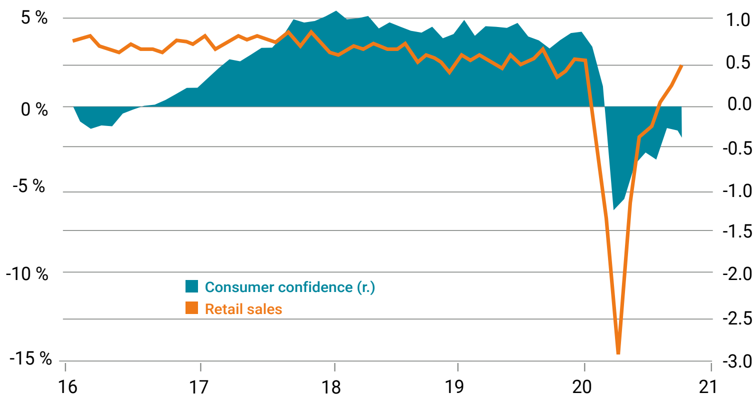
GRAPH 2 – PMI MANUFACTURING INDEX



Source : Bloomberg, Mirova

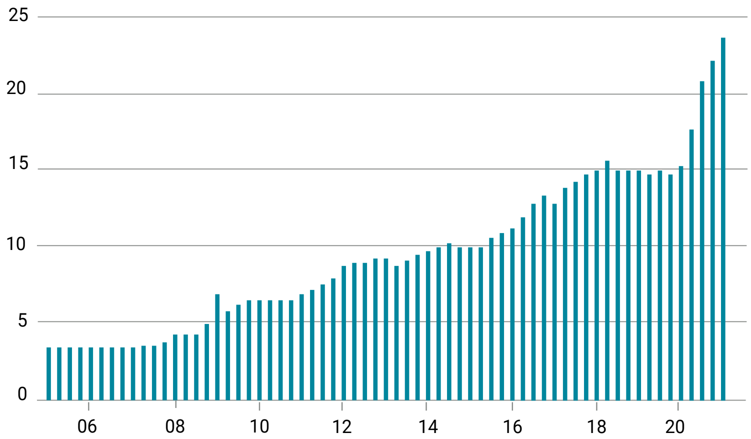
fiscal policies conducive to recovery. Global GDP growth could exceed 6% in 2021, compared to the consensus estimate of 5.2%, coming behind a contraction of close to 4% in 2020. That said, the short-term outlook is more uneven, particularly in the Eurozone, where lockdown and containment measures will have a negative impact on growth in Q1.
The European Central Bank (ECB) sought to ease the tensions looming over the bond markets last March through a very aggressive policy. Mission accomplished: interest rate spreads have returned to their pre-crisis levels. We believe that the ECB's policy is sustainable, given the deflationary pressures within the zone and the massive financing needs of governments. At its last committee meeting, the central bank decided to increase the QE envelope by €500 billion, with a nine-month extension through March 2022.
On the budgetary front, however, the much-anticipated European recovery plan is not expected to launch before mid-2021; the bulk of the sums involved (70%) are scheduled to be allocated over the 2021 – 2022 period.
The Fed [6] believes that United States GDP growth is delivering well below its potential, and therefore maintaining its dovish stance[7] by following its new average inflation targeting: no rate increases before inflation exceeds 2% for a sustained period. Fundamentally, the Fed is confident about the recovery ahead, especially since the adoption of the $935 billion fiscal stimulus plan voted by Congress at the end of December (4% of GDP) and following the announcement of a second $1.9 trillion plan announced mid-January by then President-elect Joe Biden. While it may experience modifications, the additional stimulus has every chance of passing, given the recent Democratic victory in Georgia that handed the administration a majority in the Senate.

GRAPH 3 – GLOBAL RETAIL SALES BY VOLUME AND CONSUMER CONFIDENCE LEVELS (YEAR-ON-YEAR, ANNUALISED STANDARD DEVIATION)



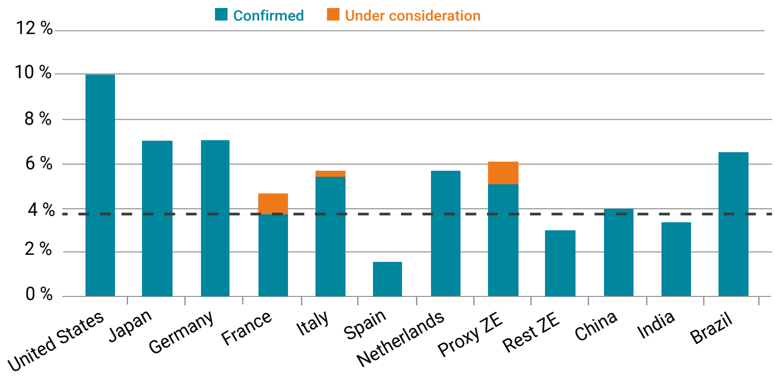
Source: Bloomberg, Mirova

GRAPH 4 – CUMULATIVE BALANCE SHEETS OF FED, ECB, BoE AND BoJ[7] (IN TRILLIONS OF DOLLARS)



Source: Refinitiv Datastream, Les Cahiers verts de l'économie

GRAPH 5 – STIMULUS PACKAGES (AS % OF GDP)



Source : Les Cahiers verts de l'économie

6. FED: the United States' Central Bank, commonly known as the United States Federal Reserve; ECB: European Central Bank; BoE: Bank of England ; BoJ: Bank of Japan
7. Policy aimed at boosting the economy with continued low interest rates and exceptional stimulus measures such as the QE.

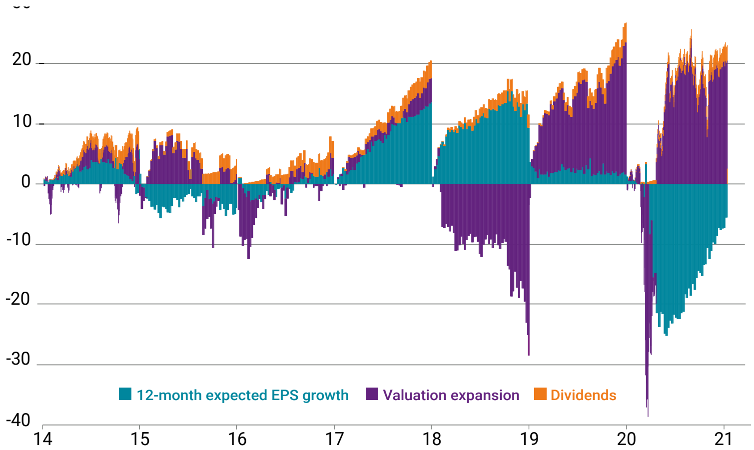
More specifically, the plan calls for $415 billion to reinforce the fight against Covid-19 and the vaccination campaign, around $1 trillion in direct aid to households, and $440 billion in aid to small businesses and local authorities.

Mechanically speaking, long rates are rising, pulling the curve upwards, but are not a cause for concern. At this stage, the incline primarily reflects better prospects for real growth and an anticipation of inflation rebounding from depressed levels. This is the beginning of a normalisation process, which should not have a negative impact on equities so long as the process remains gradual.

So, what is the most suitable positioning for this market context?

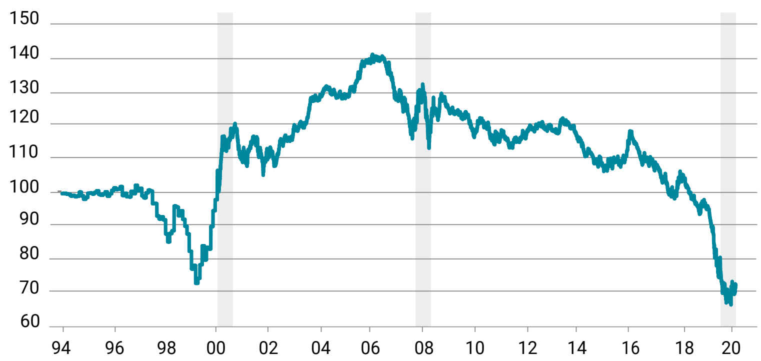
We are maintaining a pro-risk allocation in our portfolios, favouring equities and credit at the expense of sovereign bonds.
Equity valuations do appear high (see Newsletter #5: Will the planets finally align to foster a Green transition?), so does global appetite for risk. Nevertheless, we believe earnings growth potential will serve as a strong catalyst in 2021, particularly for companies with high operating leverage.
In the immediate, we are taking a slightly more cautious tack, without calling into question our positive scenario for the year, and believe that the upside potential for risky assets will be curtailed. This is due to the negative impact on Q1 growth of health measures restricting movement and potential delays in vaccination campaigns.
If we look at leadership in the equity markets, 2020 can be summed up in three main points: first of all, the February-March crash, pursuant to the collapse of the economic world; this played out against the backdrop of a generalised lockdown that favoured the most defensive companies. Then we saw a rapid recovery fuelled by growth themes that capitalised on the new environment (work-from-home, residential services...) and investor awareness of the need to address the environmental and social challenges we face (clean energy, clean transport, biotech...). And then finally, from November onwards, the cyclical/value sectors that suffered most from the pandemic began to catch up in a hurry following the announcement of vaccines. We believe that this

GRAPH 6 – VARIATION OF THE MSCI WORLD INDEX FROM START OF YEAR (IN DOLLARS) INCLUDING VALUATIONS EXPANSION, EXPECTED EPS GROWTH AND DIVIDENDS



Source: Refinitiv Datastream, Les Cahiers verts de l'économie

GRAPH 7 – WORLD: MSCI VALUE/MSCI GROWTH



Source: Bloomberg, Mirova

cycle should carry through 2021 as the economy gets back on track, just as we anticipate unabated increases to investors' appetite for companies demonstrating positive ESG impact.

As regards credit, the outlook remains subdued given current spreads, which hover close to pre-Covid levels. Moreover, massive liquidity injections have delayed, but not erased the likelihood of a sharp rise in defaults over the coming years. Therefore, we believe that issuer selection, particularly on the high yield segment, will be a key factor in delivering returns this year. Also, we feel confident that the profile of credit as an asset class will remain robust to the various market scenarios thanks to the accommodating policies of central banks.

Sovereign bonds, on the other hand, present an unfavourable risk/return profile over the medium term, which is why we are overall negative on this asset class, with a marked preference for peripheral and emerging debt in the pursuit of yield.

The risks that could derail this positive scenario for the markets are to some extent known. In the short term, risk appetite appears high, as put/call ratios, for example, indicate. Investors, anticipating a rise in risky assets over 2021, will necessarily become more sensitive to possible disappointments, particularly regarding the efficacy or availability of vaccines. A sudden interest rate hike, prompted by strong rebound in inflation expectations on the back of rising oil and raw materials prices, would precipitate a return to risk aversion, a scenario that cannot be ruled out in the second half of the year, however temporary it might prove.

Overall, we remain upbeat for 2021 and believe that active management will once again play a crucial role…

Ballard Power, global leader in fuel cells to decarbonise heavy transports

Ballard Power is the global leader in emission-free PEM (Proton-exchange membrane) fuel cell engines using green hydrogen as fuel. Fuel cells and green hydrogen are widely seen as the best solution for decarbonising heavy duty transport.

FCVs (fuel cell vehicles) rather than BEVs (battery electric vehicles) are widely seen as **the solution to decarbonise heavy duty transport** (trucks, buses, forklifts, marine and maybe even airplanes) due to their short refuelling times, long range and suitability for heavy loads. While fuel cells have been produced for decades, it is only during the last 18 months that the technology looks to set start winning market share: several countries have set detailed goals for the penetration of FCVs in order to reach their net zero emission targets. Transport continues to account for approximately 30% of emissions in many countries, with heavy transport being a disproportionate polluter.

A few months ago, the European Commission announced its hydrogen strategy with a focus on fuel cell buses and heavy trucks by 2024, and on trucks, rail and maritime by 2030. In addition, some countries have already set their own targets. The Netherlands, for example, aim at having 300,000 FCVs on the road by 2030. The United States is currently one of the biggest markets, with over 8,000 FCVs operating, mainly in California. The state has ambitious targets regarding curbing emissions from heavy transport. By 2030, 50% of new trucks sold in California must be zero emission and by 2045, all new trucks sold must be zero emission. Some 15 other states have also signed legislation stating that all new trucks must be zero emission by 2050. We expect more Federal level regulation on transport emissions as the new Biden administration takes office. China has ambitious targets aiming at one million FCVs on the road in ten years, by 2030. Japan's new prime minister announced that the country will become a 'hydrogen economy' by 2050 and it plans to have 200,000 FCV on the road by 2025 and 800,000 by 2030. As a result of the increasing targets for FCVs, total addressable market for fuel cell stacks is estimated to reach $13 billion in 2030 and $150 billion in 2050, from $280 million in 2019[8].

The rapidly growing demand for fuel cells puts Ballard Power in a unique position, as the leading PEM fuel cell company for heavy transport. Ballard has by far the longest and best track record, having manufactured fuel cells for over 30 years. It has over 1,000 buses and over 2,200 trucks on the road with over 50 million km travelled. Ballard's fuel cell buses in London have operated for 35,000 hours. Ballard has approximately 80% market share for fuel cell buses in Europe and the United States as the partner for most fuel cell bus manufacturers, including Wrightbus, Solaris, Van Hool and Kenworth. Ballard is currently developing four fuel cell-rail projects and five fuel cell ships with partners such as ABB and Siemens. Most other fuel

8. Source: Berenberg, Fuel Cell Industry Review 2020

cell manufacturers for heavy duty transport have zero or very limited history of real use.

The key intellectual property (IP) lies in the core of the fuel cell, and is called the 'membrane electrode assembly' (MEA). In order to protect their IP, Ballard manufactures all its MEAs in Vancouver and exports them to the various locations where fuel cell stacks are manufactured. The company is currently expanding MEA production capacity by a factor of six to 6 million MEAs, or 1.66 GW annually. For manufacturing fuel cell stacks Ballard has two major partnerships. The first is a joint venture with Weichai, China's biggest diesel engine producer. The Weichai/Ballard joint venture currently has prototype buses being tested and, as a first step, aims to produce 20,000 fuel cell stacks a year. The company buys its MEAs from Ballard. A few months ago Ballard announced a second partnership, with the German Tier 1 automotive supplier, MAHLE, dedicated to development and commercialisation of fuel cell commercial trucks. MAHLE has decades of experience in air intake systems and temperature controls for fuel cell systems, which will be combined with Ballard's industry leadership in PEM fuel cell technology. Their co-operation will mainly focus on the European and United States markets.

Several Mirova strategies have invested in Ballard Power since July 2020. In our view, the company's technological leadership and extended track record makes it one of the best ways to invest into the eco-activity of clean transportation, as we believe it will play a key role in de-carbonising heavy transport.

Source: Ballard

Hermès, a wellspring of committed social impact that stands out

Beyond a company's products, our extra-financial analysis takes into account the way a company behaves. In this respect, Hermès is an interesting example, particularly for its contributions to job creation in France.

It might seem odd to train a spotlight on Hermès following a year marked by a global pandemic and a major recession spanning five continents. Indeed, Hermès' products are purchased by only a tiny fraction of the world's population and hardly seem to offer solutions to the challenges of sustainable development. But beyond its products, a company also generates impacts at multiple levels and for many stakeholders.

To fully understand these myriad dimensions, let's go back a bit. Originally a leather saddle and harness maker, Hermès has, throughout its history, remained true to its original philosophy: meticulous work by the craftsman in his or her workshop, and a constant adaptation to the changing lifestyles of its customers.

The value and singularity of the Hermès business model is that, more than 180 years after its founding, with the 6th generation now at the helm, the group continues to create and innovate, while its organisation still relies on skilled craftspeople and complete control of its distribution.

Craft trades, distribution and supply chain: a controlled, quality model

Craft trades. As the leading professional category at Hermès, its 5,200 artisans account for one-third of the Group's total workforce. Over the past five years, more than 1,800 artisans have been recruited and trained. Hermès is committed to the continuous improvement of its craftsmen's exceptional expertise, to the long-term survival of its trades and to the excellence of its craftsmanship. These goals are achieved most notably through internal training centres, organised by trade throughout France.

Distribution. Since its first boutique opened in 1880, the company's distribution model has been built upon its own stores, limited in number and organised according to a highly original model: the 'Hermès maisons d'objets' (house of things). Located across 45 countries, each of the 311 Hermès boutiques is its own 'maison d'objets', with each director retaining absolute freedom to make purchases within the Group's offerings.

Supply. The average relationship time with major direct suppliers lasts 19 years, with 35% of major suppliers having been in business for more than 20 years. Three partners have been supplying the company for more than 40 years. More than 90% of the Hermès leather supplies come from France or Europe. And among the top 50 direct suppliers, half of its purchases are made in France—a positive attribute according to both ESG (responsible supply chain management) and responsible financial practices (secure supply of raw materials).

Growth: vouchsafing strong social impact

The steady expansion of the Hermès Group has gone hand in hand with significant growth in its workforce, both in France and worldwide. In 2009, Hermès had 8,050 employees, including 5,000 in France, and 33 manufacturing facilities, including 23 in France. At the end of 2019, the Group had 15,400 employees, including 9,500 in France (62%), and 55 manufacturing facilities, including 43 in France.
'Made in France' is one of Hermès' signature characteristics, which is now established in eight regions. These production sites have an average of 200 to 250 employees each, and often have an integrated training structure and strong links with the local and regional ecosystem. One of the Group's trademarks is to put down roots in employment areas affected by the consequences of globalisation, but still rich in artisanal know-how. The development of highly skilled jobs throughout such regions is thus one aspect of the positive impact Hermès' development has.
Hermès is committed to its stakeholders. Among its many initiatives is focus on the participation of persons with disabilities (more than 7.42% of the workforce in France in 2019, above the regulatory threshold of 6%), support for the revitalisation of areas where new production sites are located, actions taken to decouple business growth from water and energy consumption (in 10 years, while business has grown by a factor of 3.6, energy consumption has increased by 1.3 and water consumption by 1.9), with an emphasis on product repair and maintenance (100,000 Hermès products are repaired each year in the company's workshops).
With its positive social and regional impact, quality HR policy, diversity (women represent 68% of the workforce), and controlled environmental footprint, Hermès is a unique and remarkable company, and holds a special place among listed companies in France.

Hermès in 2020 during the Covid era

Hermès' business was obviously severely impacted by the pandemic. However, the Hermès family's financial strategy has always been to self-finance and to maintain an abundance of cash on the balance sheet. This level of cash (€3.7 billion at the end of June 2020) has enabled Hermès to pursue its investment plans despite the headwinds, and to maintain its workforce and training plan.
Hermès has maintained the base salaries of its 15,500 employees in France and worldwide without having to resort to exceptional public assistance from various States, such as the partial business support scheme in France.
Hermès donated €20 million to the Assistance Publique-Hôpitaux de Paris, in addition to donations of more than 30 tons of alcohol sanitising solution produced by its Parfum du Vaudreuil site, and more than 31,000 masks from the company's various entities. This will be supplemented by support for health services provided locally by its subsidiaries around the world.
At the behest of the Executive Chairmen, the Supervisory Board decided on the payment of a dividend reduced from €5.00 to €4.55 per share, the same amount as that paid in 2019. The Executive Chairmen decided to waive the increases to their fixed compensation paid in 2020 and their variable compensation awarded in 2020 for 2019, and will therefore receive in 2020 a total amount of compensation identical to that received in 2019.

Britannia, rule the green bond waves

Coverage of the UK's political scene is often limited to Brexit and the never-ending process of its implementation. Yet there are many other issues on the British government's agenda, including some fairly ambitious targets in terms of environmental transition.

This will undoubtedly be interpreted by some as the natural consequence of a desire to make London a global centre of green finance, at a time when the threats to its status are fuelling doubts. Whatever the hidden goals in favour of the City, if any, we can certainly expect results for the environment. In 2017 and then 2018, the team led by Theresa May put forward two plans (the 'Clean Growth Strategy' and 'A Green Future') which have since been de facto adopted by Boris Johnson's cabinet.

Speaking before the House, Mr Johnson's allies have announced their intention to invest in projects based upon those plans and even create suitable institutions, by way of concrete gestures. In November, they added a £12 billion- '[Ten Point Plan for a green industrial revolution]' covering energy, transport, nature and technologies. The plan notably aims at having offshore wind power capacity boosted to 40 GW by 2030, i.e. four times the current level; most of the wind turbines will of course be located in Scotland and the North East. The government also wants to promote green hydrogen, and even contends it will 'develop the first town heated entirely by hydrogen' by 2030.

Other points could be seen as more vague or classical, if not more controversial when it comes to nuclear being dubbed a 'clean energy source' as well as to decarbonising jets or vessels, but taken together, they might produce some results, at least in terms of CO_2 emission savings. Although the opposition and certain environmental groups criticise what they think is a considerable disparity between the prime minister's speeches and what constitute realistic targets, particularly regarding the preservation of land and biodiversity or his desire to make the UK the 'Saudi Arabia' of wind power, the fact remains that, going forward, his projects now have a funding component, and that should not be neglected. Indeed, the Chancellor of the Exchequer, Rishi Sunak, has announced that the UK's first Green Bond will be launched next year; in theory it will focus on clean and renewable energies.

While sceptics will see this as nothing more than a means of arranging a sort of financial endorsement of 10 Downing Street's green plans, it is actually a crucial step in setting the British State on the path to a more sustainable economy, probably to a greater extent than even Messrs. Johnson and Sunak have imagined. Of course, the leaders' real objectives might encompass the appropriation of environmental issues which have broad support across the class and nation spectrum, as is illustrated by their communication on the positive impact they target for Wales, the Midlands, the Humber, Teesside, Merseyside, Grangemouth..., but launching such a sizeable green bond will place their environmental policy under the scrutiny of investors

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in addition to that of voters and workers. Indeed, once a framework for a green bond has been prepared and approved, displaying clear investment objectives on each type of projects and assets determined and identified in advance, a government has little choice but to keep its word. The British are certainly not shy of calling their leaders to account, but they will not always have access to the technical information which would allow them to follow the translation of the government's green investment plans into reality; the future holders of the British green bond, on the other hand, will have the means to closely follow these data. The resulting pressure will inevitably have positive effects.

From Mirova's perspective, the conversion of some of the world's most influential governments to green bonds, even with a hidden agenda, forces them to embark on the essential path of financing the environmental transition without looking back, because they will have to translate that into tangible results. Following the example of the Netherlands in 2019, and then Chile, Sweden and Hungary in 2020, Germany is the latest country to have taken the plunge in September, issuing its first green bond, for €6.5 billion maturing in ten years, followed shortly afterwards by those of Daimler and Volkswagen, for €1 billion and €2 billion respectively. With the UK's green bond, there is no doubt that this sector of the market will be engulfed by British corporate issuers, who are still apprehensive at present. As an example, in a green bond market that has surpassed the $1 trillion threshold this year, sterling-denominated green bonds represent no more than £15 billion.

The City, while waiting for this green gilt[9], may while away the time with the Italian Republic's green bond: Giuseppe Conte's government has just announced that it was preparing to launch one very 'soon'. Rule Italia.

9. Green bond of the United Kingdom government

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Cheers Icade Santé

On 10 September, just as Covid-19 seemed to have lost ground in Western Europe as it had already done in most of Asia, Icade Santé (rating: BBB+ Stable)[10] placed its first social bond for a total of €600 million.

The issue, which matures in 2030, has appreciated considerably since; the price currently flirts with 108% of par, compared to a reoffer of 99.9% at issue. The resulting squeeze of nearly 60 basis points (bp) is certainly due in part to the credit bounce-back observed in the last four months of the year, but only in part. The performance of this social bond exceeded that of credit indices over the period (editor's note: ca. 2.2% over 10 September – 31 December 2020 for the Bloomberg Barclays Euro Aggregate Corporate). From October onwards, the more positive sentiment toward property values (Icade Santé is still perceived in terms of real estate, a factor reinforced by the stake of Icade group (BBB+ Stable), which holds 56.51%) doubtless also contributed to the bond's outperformance. Nonetheless, it seems that another factor may have played a crucial role: the underlying demand for social bonds, a demand that had been previously frustrated, and therefore masked, by a lack of supply.

As a reminder, the social bond market remains on a slower trajectory than that of green bonds (see Mirova #3, pp. 3-5: Should the financial markets worry about social inequalities?). This is mainly because of the low returns some of them offer, as they are principally issued by state agencies, notably to promote access to housing for vulnerable populations. Icade Santé, however, has shown that if a social bond compensates its holders for the level of risk they incur, strong demand will follow. In this case, the social objective was simple and clear: to finance the construction, development, extension and restructuring of real estate assets destined for healthcare, with the obvious corollary of helping to extend access to such healthcare to a maximum number of people in France. This is consistent with the corporate purpose of Icade Santé, founded to this end in 2007 by Icade, which has since opened its capital to several institutional investors. Icade Santé owns or operates more than 130 healthcare facilities, the majority of which are dedicated to medical practice, surgery and obstetrics, alongside care homes and psychiatric centres. Icade Santé's operating model is fairly defensive, based on high occupancy rates, regulatory barriers to entry due to the approvals required from public authorities, but also comfortable margins, the sum of which results in fairly low volatility. The edifice also rests on the rather favourable prospects for these activities, driven by ageing demographics. The challenges of accommodating populations made physically fragile by their age, accidents or illness are of major importance for a modern society.

While some fear that social bonds will be relegated to a niche role with no prospects for growth, this issue offers reassurance: the Icade Santé social bond was oversubscribed more than ten times over.

10. Standard & Poor's July 2020 ratings

FOCUS SFDR, the regulation on sustainability reporting in the financial services sectors

Improving the transparency of financial institutions on environmental and social issues is a strongpoint of the European Commission's action plan on sustainable finance. The cornerstone of this enhanced transparency, the Sustainable Finance Disclosure Regulation (SFDR) is due to enter into force in March 2021 for its initial phase.

What is it for?

This regulation is complementary to the taxonomy regulation, which introduces an obligation for companies and financial players to report on the green portion of their activities, in other words on their 'positive' contribution. For its part, the disclosure regulation imposes an obligation to report on risk management.

It is important to underscore that in this regulation the European Union has implemented its so-called 'double materiality' approach. It not only takes into account sustainability risks on the value of investments but also requires that financial actors be more transparent about the impact of their investments on sustainability.

To whom does it apply?

The regulation stipulates reporting obligations for market participants, with enhanced obligations for entities with more than 500 employees, their products, and financial advisers. Expectations as to communications are differentiated according to the importance of sustainability criteria in investment processes and promotional communications. The regulation defines transparency obligations for all products, with additional obligations for products with an ESG dimension:

- **So-called 'Article 8' products,** which promote, among their other qualities, environmental or social characteristics, or a combination thereof. This definition is deliberately very broad, in order to compel all actors who communicate to any degree on an ESG dimension to associate some level of transparency with such communications.
- **'Article 9' products,** namely those whose purpose is sustainable investment, i.e. investment in economic activities that contribute to an environmental or social objective[11].

To date there remains some questions as to the precise definition of the borderline separating Article 8 and Article 9 products. Indeed, the text limits itself to listing certain characteristics, without naming specific products or offering precise specifications.

11. The text clarifies that an environmental target is measured for example by key indicators on resource efficiency regarding the use of energy, renewable energy, raw materials, water and land, on waste generation and greenhouse gas emissions, or on the effects on biodiversity and the circular economy. The text also gives examples of investments with a social objective:
- an investment contributing to the fight against inequalities;
- an investment that promotes social cohesion, social inclusion and labour relations;
- an investment in human capital or economically or socially disadvantaged communities.

What does the disclosure regulation entail?

The main objective of the regulation is to secure regular publication of various policies and indicators, the details of which are still being defined, that affect how sustainability risks are managed. The guiding principle is that, where a fund has environmental and/or social characteristics or objectives, whether Article 8 or Article 9, it must report in a transparent manner on indicators that demonstrate compliance with these ambitions. Even products with no ESG characteristics, must report on how they address sustainability risks.
The regulation further provides for elements to gauge the degree to which the compensation policies of financial services companies are consistent with these arrangements.

Why is this important?

Beyond a desire for transparency, these Articles 8 and 9 are also important for distribution purposes, since they could be included, with additional amendments, in new provisions to be associated with the 2014 MiFID II (the Markets in Financial Instruments Directive, which entered into force in 2018) governing the distribution of investment products. These provisions are currently being finalised to ensure that retail investors are properly consulted by financial advisors on their sustainability preferences. The last draft proposal specified that when a retail investor expresses a preference for sustainability, only 'Article 9' and 'Article 8+' products (an improved version of Article 8, considered insufficiently demanding alone), may be offered. Consequently, there is, independent of the reporting question, a product distribution issue associated with the SFDR. And indirectly, a de facto question of product standardisation, even if this was not the regulator's initial intention.

An Investors' Club to push women's Executive Committee membership to 30%

Two years ago, Mirova announced the creation of an investment strategy to promote women in business, an innovative investment solution aimed at accelerating progress towards United Nations Sustainable Development Goal No. 5, 'Achieve gender equality and empower all women and girls', by investing in companies with industry leading gender equality policies and practices. Mirova has now continued its active commitment to furthering women's participation in professional life by announcing a new initiative.
Together with six management companies representing nearly €3 trillion in assets under management[12], Mirova took part in creating the 30% Club France Investor Group last November. The aim of this initiative is to promote greater gender diversity within the management bodies of SBF 120[13] companies by supporting a voluntary approach to achieving meaningful and lasting change within companies: namely representation of women on executive committees at a rate of 30%. Convinced that gender diversity is a performance driver for companies, members of the Club plan to federate and coordinate a community of investors around the issue of diversity, opening discussions with SBF 120 companies and supporting them in this transition.
On a practical level, the six management companies will engage with companies (CEOs,

12. As at 30 September 2020
13. The SBF 120 is a French stock market index on the Paris stock exchange that includes the 120 most liquid stocks on the French primary and secondary market. It includes CAC 40 companies as well as 80 other listed companies with the most liquid stocks.

Human Resources managers, members of boards of directors, nomination committees) on the issue of diversity within management teams and encourage better representation of women, particularly in operational positions. Beyond companies' leadership, the Investor Group also wants to understand how gender diversity criteria are taken into account in recruitment and promotion processes up to the highest levels of management, with the aim of developing and maintaining a sufficiently diverse talent pool at all levels of the company. The Investor Group will also ensure that companies have set clear targets for gender diversity and associated these with an action plan to achieve them. Lastly, at General Meetings, members of the Investor Group may use their voting rights to encourage companies to take action if and when measures taken in favour of gender diversity are deemed insufficient and engagement with the company has not produced satisfactory results.

To date, a declaration of intent has been sent to all SBF 120 companies, to inform them of the Club's creation and expectations. Furthermore, an initial series of meetings dedicated to this topic has been scheduled with companies identified by Club members as having priority in terms of gender equality. Prior to this, we identified the most relevant indicators for reporting on an organisation's performance in this area and the most effective measures for promoting women's access to top management positions. The exchanges initiated as part of the Club's work aim to widely disseminate best practices in terms of gender equality, helping companies identify the most effective levers and thus improve their performance on this issue.

From six founding members—Mirova, Amundi, AXA Investment Managers (AXA IM), La Banque Postale Asset Management (LBP AM), Ostrum Asset Management, Sycomore Asset Management—the Investor Group is looking to broaden its membership base. Asset management companies investing in SBF 120 companies, whether based in France or abroad, as well as institutional investors, are invited to join the 30% Club France Investor Group in the coming months. This initiative is every bit in line with the dialogue among peers that Mirova aspires to promote as a means of strengthening the consideration of environmental and social issues from the perspective of responsible finance.

Measuring impact

Mirova Consolidated Equity

31/12/2020 – Index: MSCI Europe

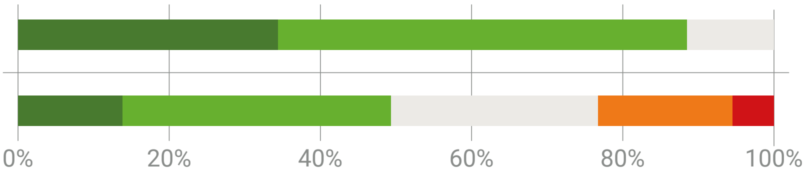
Impact on the achievement of the SUSTAINABLE DEVELOPMENT GOALS (SDGs)

EXPOSURE TO POSITIVE/COMMITTED IMPACT ON SDGS

Strategy	89%
VS.	
Index	49%

Coverage rate for strategy: 95%
Coverage rate for the index: 100%

% OF ASSETS*



Impact: Commited Positive Neutral Risk Negative

*Cash and cash equivalent excluded

Source: Mirova

Key impact indicators

CLIMATE CHANGE

Climate change trajectory

Strategy
+1.5°C
VS.
Index
+3.5°C

Coverage rate for strategy: 98%
Coverage rate for the index: 99%

Source: Carbone4/Mirova

GENDER EQUALITY

Women in executive committees

Strategy
20%
VS.
Index
16%

Coverage rate for strategy: 97%
Coverage rate for the index: 100%

Source: Mirova

EMPLOYMENT

Average yearly change in workforce (2016-2019)

Strategy
5%
VS.
Index
2%

Coverage rate for strategy: 100%
Coverage rate for the index: 100%

Source: Mirova, from company reports

Impact mapping to the SDGs

Share of positive/commited contributors*

Corresponding SDGs

ENVIRONMENT

CLIMATE STABILITY
Limit GHG levels to stabilize global temperature rise under 2°C

HEALTHY ECO-SYSTEMS
Maintain ecologically sound landscapes and seas for nature and people

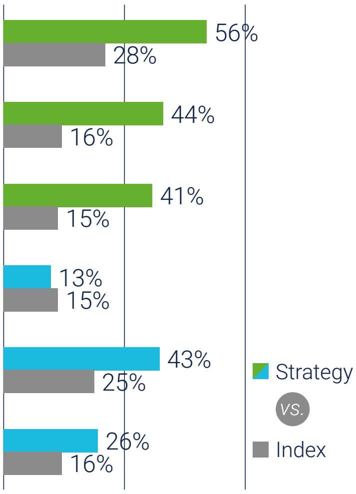
RESOURCE SECURITY
Preserve stocks of natural resources through efficient and circular use

SOCIAL

BASIC NEEDS
Basic services (Food, water, energy, shelter,health, etc.) for all

WELL BEING
Enhanced health, education, justice and equality of opportunity for all

DECENT WORK
Secure, socially inclusive jobs and working conditions for all



*Sum of strategy/index holdings with Positive or Committed opinion

Source: Mirova

Mirova Consolidated Fixed Income

31/12/2020 – Index: Barclays Euro Aggregate Corporate

This information relates to all the fixed income funds managed by Mirova

Impact on the achievement of the SUSTAINABLE DEVELOPMENT GOALS (SDGs)

EXPOSURE TO POSITIVE/COMMITTED IMPACT ON SDGS

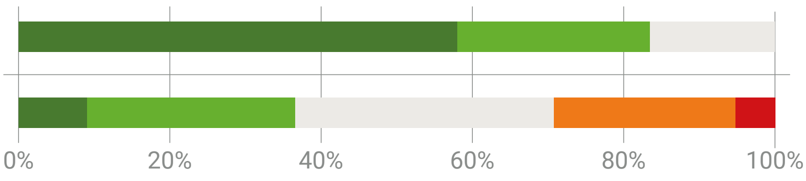
Strategy 83%

VS.

Index 37%

Coverage rate for strategy 95%
Coverage rate for the index: 100%

% OF ASSETS*



Impact: Commited Positive Neutral Risk Negative

*Cash and cash equivalent excluded

Source: Mirova

Key impact indicators

CLIMATE CHANGE

Climate change trajectory

Strategy

+1.5°C

VS.

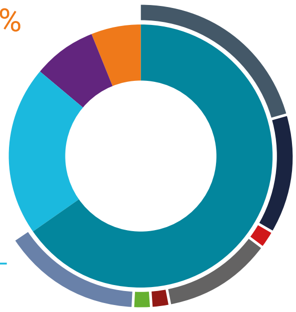
Index

+3.8°C

Coverage rate for strategy: 76%
Coverage rate for the index: 88%

Source: Carbone4/Mirova

SUSTAINABILITY BONDS



Sustainability bonds
66%

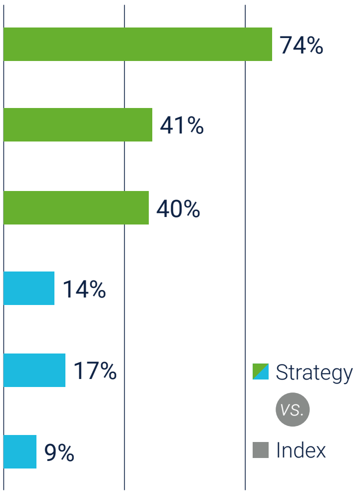
21% Renewable energy
13% Energy efficiency
2% Sustainable waste & water management
12% Clean transportation
2% Other environmental

0% Affordable housing
2% Other social
15% Diversified

Source: Mirova

Impact mapping to the SDGs

		Share of positive contributors*
ENVIRONMENT	CLIMATE STABILITY Limit GHG levels to stabilize global temperature rise under 2°C	74%
ENVIRONMENT	HEALTHY ECO-SYSTEMS Maintain ecologically sound landscapes and seas for nature and people	41%
ENVIRONMENT	RESOURCE SECURITY Preserve stocks of natural resources through efficient and circular use	40%
SOCIAL	BASIC NEEDS Basic services (Food, water, energy, shelter, health, etc.) for all	14%
SOCIAL	WELL BEING Enhanced health, education, justice and equality of opportunity for all	17%
SOCIAL	DECENT WORK Secure, socially inclusive jobs and working conditions for all	9%



Corresponding SDGs

*Sum of strategy/index holdings with Positive or Committed opinion

Source: Mirova

mirova
Investing in sustainability

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