This is a methodological document aimed at clarifying how Mirova takes into account sustainable development issues in the framework of the environmental, social and governance analysis of each sub-sector of activity.
The mobility of people and goods is a key component of human development and a fundamental part of the functioning of society. Yet, mobility remains an unequally distributed privilege among human beings. The development of tourism, the expansion of international trade, and the improved living standards in emerging countries, are all growth drivers for the sector. However, if transport operators do not take on more environmentally friendly solutions¹, this growth will contribute to an increase in greenhouse gas emissions, pollution and impacts on biodiversity and resources.

In addition to a strong environmental impact, this sector also generates many direct and indirect jobs thus creating challenges for human capital management. Finally, goods or people flows increase operators’ responsibility to ensure safe transport solutions.

Sectors: Port, airport, rail and road infrastructure operators; companies in charge of passenger transport or those responsible for logistics and postal mail; organizations offering shared mobility systems

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Sustainability Opportunities

Low-carbon mobility

Transportation is a major contributor to greenhouse gas emissions and use of fossil fuels. While technological levers for reducing the carbon footprint of transport depend on equipment and vehicle manufacturers—whether they are aircraft, road vehicles, ships or trains (see the sectorial analysis on Vehicle manufacturers and Equipment manufacturers)—operators also have a key role to play through:

- Vehicle fleet renewal (improvement solutions),
- Use of energy-efficient transport modes per unit transported (alternative solutions),
- Increasing use of route optimization systems (reduction solutions).

Figure 1: Environmental impact of different modes of transport

Carbon footprint reduction can be analyzed as:

- A risk mitigation strategy when it is based on continuous improvement (vehicle renewal, optimization, etc.) allowing operators to reduce their energy bills and exposure to increasing risks linked to the CO2 regulation, or;
- A sustainable development opportunity for companies adopting a strong positioning on low-carbon mobility with an economic model based on a decarbonized transport supply.

Alternative solutions rely on operators’ proactivity in developing and offering cost-competitive and attractive (convenience, duration) low-carbon alternatives (rail, maritime) in order to reduce the use of air and road transportation.

Alternative solutions could come from:

- Passenger transportation operators offering affordable and convenient train or bus routes to refrain users from travelling by car or by plane;
- Logistics operators giving priority to rail, maritime, electric vehicles or multimodal transport in their service offering;
- Transport infrastructure managers providing electric charging points or hydrogen stations, as appropriate, to encourage industry and society to adopt less environmentally damaging engines.

In addition, any model that promotes functional economy and avoids the need to own a vehicle to make a trip is a potential answer to these challenges, such as car sharing or carpooling services.
Access to sustainable mobility

The development of transports promotes access to mobility for all. Some sparsely populated areas remain remote and difficult to access. Mobility is a privilege unequally distributed within society, whether in the peri-urban areas in developed countries, or in developing countries without infrastructure and transport. Nevertheless, improving access to mobility for the most disadvantaged people cannot go against environmental efforts by increasing the impact on climate change and/or pollution. Therefore, the term “sustainable mobility” used here refers to a low-carbon, pollution-free mobility.

Low-carbon and low-polluting transport solutions such as rail transport (metro, tram, train), electric buses, car sharing of electric vehicles or cycling infrastructure in developing countries and in remote areas are some of the solutions promoting sustainable mobility. It enables access to health infrastructure, jobs, etc. while helping to reduce the environmental impact of passenger transport. It also influences the modal choice of transport in favor of low-carbon and low-polluting solutions, by providing individual users with an alternative to conventional vehicles.

We encourage investments in transport operators who develop affordable low-carbon and low-polluting public or personal transport systems, in order to improve access to clean transportation for low-income people.

KEY INDICATORS

▪ Existence of affordable low-carbon and low-polluting solutions

Exposure to Opportunities

<table>
<thead>
<tr>
<th>Indicators considered:</th>
<th>Current performance or targets regarding alternative or reduction solutions (revenue and/or investments related to these solutions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High exposure</td>
<td>&gt;50%</td>
</tr>
</tbody>
</table>
| Significant exposure  | - Between 10% and 50%  
                       | - Strong contribution not justified by figures (strategy and products)  
                       | The analysis of investments oriented toward transfer or avoidance solutions allows to qualitatively nuance the analysis based on revenues.  |
| Low or no exposure    | <10% of products/services in line with the mentioned solutions                                                                 |
| Negative exposure     | N/A                                                                                                                        |
Environmental and Social Risk

Reducing the Environmental Impact of Processes

Goods or passenger transport operators, particularly companies operating in the most carbon intensive modes (air, road), are encouraged to implement strategies to reduce their carbon footprint in order to minimize risks related to regulation, rising fossil fuel prices and their image. Since the 1970s, all modes of transportation (air, rail, road and maritime) have become more energy efficient. Much of this progress has been achieved thanks to both vehicle and equipment manufacturers, but also thanks to the adoption of more efficient vehicle operators.

Reducing the carbon footprint can take different forms depending on the type of company:

▪ Transport operators (airlines, railway, maritime, road, logistics companies) renewing their fleet with more fuel-efficient airplanes, trains, ships or vehicles; or looking for new sources of energy such as biofuels, especially in air and maritime transport; reducing on-board weight, improving filling rates, integrating their contractors’ CO2 emissions into their considerations, optimizing the routes or rethinking the trajectories;
 ▪ Transport infrastructure (airports, ports, stations, warehouses), improving buildings energy efficiency, using renewable energy and promoting sustainable mobility (electric vehicle fleet, low-carbon modes of transport available to travelers).

We favour companies that demonstrate a real effort to minimize the environmental impact of their service offering. We expect companies to be transparent about their carbon footprint, as well as those of their suppliers, and of the use of their products.

KEY INDICATORS

▪ Overall transparency on the overall carbon footprint (scopes 1, 2 and 3)
▪ Past performance in terms of CO2 emissions reduction on all scopes
▪ Targets and appropriate strategy

Local Impact

Infrastructure and transport operations can have harmful effects on local populations (noise, pollution, visual discomfort) and its environment. Consultation with local stakeholders is a necessary to improve the acceptance of a new project. The analysis also seeks to ensure that operator’s activity does not impair another economic activity (ex: agriculture), does not destroy archaeological or heritage wealth (historical monuments and registered or classified sites, archaeological protection, etc.), complies with pollution regulations (waste, soil, water, etc.) and, finally, integrates biodiversity protection aspects.

Linear infrastructure, such as roads and railways, cross man-made landscapes but also poorly urbanized or even completely natural areas. Impacts on biodiversity are numerous: noise, pollution, fragmentation or even destruction of habitats, transfer of species, risks of collision during exploitation, great areas of buildings, urbanization and artificialization around infrastructure, etc. Ports and airports, covering large areas, also have significant effects on nearby ecosystems. In some geographical areas -in response to the increasing ecological awareness and to a more holistic view of nature that integrates ecosystems and their functioning-, the design and layout of linear infrastructure tends to avoid protected natural areas and/or plant and animal species, but also to reduce the risk of biodiversity loss even in ordinary areas.
While this issue mainly concerns infrastructure builders, operators are also involved in its management. They may be sponsors of the construction and must therefore manage the upstream phase of “implementation” in a responsible and environmentally friendly manner. Infrastructure operators must now adapt to biodiversity constraints in order to avoid, reduce, compensate or even develop projects with positive biodiversity impacts (IUCN, 2015). Work schedules management considering the biological cycles of local species, fences, limiting the footprint on the ground to the strict necessity, as well as renaturation and wildlife crossings, are the tools used to reduce the impacts of a linear infrastructure.

Regarding the impacts related to the surrounding populations, the aim is to identify good practices (e.g. noise barriers, curfews for airports at night, etc.).

We encourage companies to assign great importance to the impact of their projects on the surrounding populations, fauna, and flora in order to reflect the achievement of good practices included in the global strategy at the local level.

**KEY INDICATORS**

- Detailed strategy on biodiversity (avoid, limit, compensate the impacts)
- Elaboration of indicators for “net loss” of biodiversity
- No controversy

**Health and Safety of Users and Secure Logistics**

Although transportation safety is constantly improving and public transit is the safest mode of transportation, passenger safety remains a paramount issue for the sector in order to ensure business continuity.

In freight transport, hazardousness of products transported, and the potential of an accident may affect the surrounding populations or biodiversity. Thus, it is a stake that must be considered by operators.

We make sure that the quality of the policy put in place is sufficient to ensure the complete safety of people or goods transported.

**KEY INDICATORS**

- Transparency and effectiveness of the policies
- Number of accidents and remedial actions deployed

**Human Resources**

Transport relies many job: direct (people employed in companies in the sector), indirect (jobs linked to economic activities deployed around transport infrastructure, at the service of transport companies or supported by transport such as tourism) and induced (access to employment facilitated by an increase in means of mobility).

The “Human Capital” issue focuses on direct employment and the chain of subcontractors/suppliers. The activity remains strongly linked to economic dynamism, which generates pressure on employees in times of crisis. Restructuring management, the quality of social dialogue, employability and well-being at work are essential and sometimes insufficiently addressed in the sector, which is characterized by a large number of strikes, particularly in air transport.

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In addition, employees and subcontractors of transport companies are exposed to risks of transport accidents inherent to the activity.

**We promote investment in companies that are transparent about their social practices.** In particular, we look at accident rates, restructuring management, and respect for human rights across the entire value chain: from employees to subcontractors.

**KEY INDICATORS**

- Accident rate and safety policies
- Quality of HR practices
- Respect of ILO laws for all employees and subcontractors

**Business Ethics**

In addition to cross-cutting issues affecting all sectors, transport operators bidding for new operating rights are particularly exposed to the risk of corruption.

The analysis aims to assess the level of business practices and commitment to this issue to ensure that the business is conducted in an accountable and transparent manner.

**We encourage companies to demonstrate a high level of transparency by detailing their anti-corruption policies.**

**KEY INDICATORS**

- Transparency of anti-corruption policies
- Significant controversies and company’s responses

**Sustainable Development Governance**

The integration of the sustainable development strategy into the governance structure appears essential for the industry, which is likely to support the transition to a sustainable development model for our societies, but is also concerned by strong risks on social, societal and governance aspects.

**We encourage companies to set up governance bodies dedicated to implementing corporate responsibility and integrating the interests of all stakeholders, as well as aligning the interests of executives with the long-term development of the company.**

**KEY INDICATORS**

- Integration of criteria and objectives of extra-financial performance in the annual report
- Integration of criteria and objectives of extra-financial performance in the remuneration of executive directors
- Presence of a director or committee of the Board specifically in charge of CSR issues
## Risk Assessment

<table>
<thead>
<tr>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
</tr>
<tr>
<td>- Robust policy including a strategy, indicators and performance monitoring on one of the key issues mentioned in the risk review AND</td>
</tr>
<tr>
<td>- Lack of serious controversy on other key issues</td>
</tr>
<tr>
<td><strong>Neutral</strong></td>
</tr>
<tr>
<td>All other cases</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td>- Policy deemed insufficient or inappropriate for the company’s climate exposure OR</td>
</tr>
<tr>
<td>- Company’s response to a controversy on biodiversity or local impact aspects deemed insufficient or inappropriate OR</td>
</tr>
<tr>
<td>- Company’s response to repeated human capital controversies deemed insufficient or inappropriate OR</td>
</tr>
<tr>
<td>- Serious controversy over the safety of users, transported products or employees</td>
</tr>
</tbody>
</table>
Conclusion

Although they have fewer levers than manufacturers and equipment suppliers, transport operators significantly weight in greenhouse gas emissions and can influence technological choices towards modes of transport emitting less CO2 and are cleaner for the environment.

Moreover, whether companies are managers of a vehicle fleet or concessionaires of a transport infrastructure, the stakes in terms of pollution, biodiversity or local impact are important and not uniformly taken into consideration by the players in the sector.

Finally, not only because the sector is a source of employment, but also because it is driven by the quality of human capital, human resources practices and health and safety risks prevention are critical issues.
Our Approach to sustainability assessment

Acting as a responsible investor requires interpreting the economic world within its social and environmental context. This approach calls for understanding the interactions between different private-public players, small-medium-large companies, developed and developing economies to ensure that each player’s growth is consistent with the balance of the rest of the system. It is a long-term approach that guarantees that today’s choices will not lead to negative consequences for future generations. Understanding these complex relationships demands:

- Clear understanding of sustainable development issues facing our societies,
- Assessing the possible interactions between the assets of our investment strategies and these sustainability issues.

The SDGs as a Guide

Following the Millennium Development Goals created in 2000, the United Nations set out a new framework for sustainable development in 2015. It contains 17 Sustainable Development Goals (SDGs), broken down into 169 specific targets designed to address the main social and environmental issues between 2015 and 2030. In addition to having been adopted by all members of the United Nations, the SDGs offer several advantages.

First, they establish a comprehensive framework concerning environmental and social issues, applicable to all economies regardless of their level of development. Thus, while some issues such as ending hunger or ensuring access to water for all are often more relevant for low- and middle-income countries, other objectives such as fighting climate change or making cities safe, resilient and sustainable, are applicable at all levels of development.

Moreover, the SDGs can be considered as a frame of reference for sustainable development issues for a variety of actors, from governments to companies and investors. The private sphere is increasingly considering environmental and social issues, illustrating new forms of governance where subjects of general interest are no longer solely the prerogative of the public sphere. Considering the SDGs can help companies to think on how they create environmental, economic, and social value.

Finally, the SDGs help investors to question the long-term resilience of their assets and portfolios to the ongoing transformations. Then, investors can go even further by looking at their exposure to new solutions and economic models that will respond to long-term economic transformations. For example, the targets associated with the SDGs to significantly increase the share of renewable energy and to double energy efficiency by 2030 imply a profound transformation within the energy sector.

We consider the SDGs squarely in line with our mission. As a result, in 2016, Mirova decided to use this framework to define its responsible investment approach.
**Figure 2: The 17 Sustainable Development Goals**

<table>
<thead>
<tr>
<th>Goal Number</th>
<th>Goal Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>End poverty in all its forms everywhere</td>
</tr>
<tr>
<td>2</td>
<td>Ensure healthy lives and promote well-being for all at all ages</td>
</tr>
<tr>
<td>3</td>
<td>Achieve gender equality and empower all women and girls</td>
</tr>
<tr>
<td>4</td>
<td>Ensure availability and sustainable management of water and sanitation for all</td>
</tr>
<tr>
<td>5</td>
<td>Ensure access to affordable, reliable, sustainable and modern energy for all</td>
</tr>
<tr>
<td>6</td>
<td>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</td>
</tr>
<tr>
<td>7</td>
<td>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</td>
</tr>
<tr>
<td>8</td>
<td>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</td>
</tr>
<tr>
<td>9</td>
<td>Make cities and human settlements inclusive, safe, resilient and sustainable</td>
</tr>
<tr>
<td>10</td>
<td>Reduce inequalities within and among countries</td>
</tr>
<tr>
<td>11</td>
<td>Ensure sustainable consumption and production patterns</td>
</tr>
<tr>
<td>12</td>
<td>Take urgent measures to combat climate change and its impacts</td>
</tr>
<tr>
<td>13</td>
<td>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</td>
</tr>
<tr>
<td>14</td>
<td>Protect, restore and promote sustainable use of forest ecosystems, combat desertification, and halt and reverse land degradation and halt biodiversity loss</td>
</tr>
<tr>
<td>15</td>
<td>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</td>
</tr>
<tr>
<td>16</td>
<td>Strengthen the means of implementation and revitalize the global partnership for sustainable development</td>
</tr>
</tbody>
</table>

Source: United Nations
Assessing Environmental and Social Quality by the SDGs

We believe that the SDGs will transform the economy as we know it. Acting as a responsible investor starts with taking a broader view of the way investors think about the environmental and social profile of the assets they finance. These interactions can be grouped into two categories:

- **Materiality**: how the current transitions are likely to affect the economic models of the assets financed either positively or negatively.
- **Impact**: how investors can play a role in the emergence of a more sustainable economy

We believe that these two approaches are closely linked. Our evaluation methodology thus seeks to capture the extent to which each asset contributes to the SDGs. From our perspective, this approach provides a relevant vision on both the “Materiality” and “Impact” aspects.

**A Five-level Qualitative Analysis**

Mirova has based its environmental and social evaluation method on four principles:

**A RISK/OPPORTUNITY APPROACH**

Achieving the SDGs requires taking two different dimensions into account that often go together.

- Capturing opportunities: when companies center their strategies on innovative business models and technologies focused on technological and societal transformation, they can often capture opportunities related to the SDGs.
- Managing risks: by proactively managing risks related to these transitions, companies can reduce and re-internalize their social and environmental externalities, which often takes the form of general management of sustainability issues.

This analysis structure gives equal importance to opportunities and risks. It is the first prism through which we analyze sustainable development issues.

**A LIFE-CYCLE VISION**

To identify the issues that could impact an asset, the analysis of environmental and social issues must consider the entire life cycle of products and services, from raw material extraction to end-of-life phase.

**TARGETED AND DIFFERENTIATED ISSUES**

Our risk/opportunity analysis focuses on the elements most likely to have a real impact on the assets studied and on society in general. Additionally, the issues that economic players face
are very different depending on the sector, and can even vary within the same sector\(^3\). For example, it is important for us to focus on work conditions for suppliers in the textile industry, while for automobile manufacturers, the focus will be more on energy consumption during product use.

So, our analysis focuses on a limited number of issues adapted to the specificities of each asset.

A QUALITATIVE RATING SCALE

Our analyses are summarized through an overall qualitative opinion on five levels. This opinion assesses to what extent an asset contributes to the SDGs.

This rating scale is based on the SDGs and their achievement. As a result, opinions are not assigned based on a distribution set in advance: we are not grading on a curve overall or by sector. Mirova does not exclude any industry on principle, and carries out a thorough analysis of the environmental and social impacts of any asset. For some sectors, this analysis may lead to the exclusion of all or some of its actors. For example, companies involved in fossil fuel extraction are considered “Risk” at best, while renewable energy companies are generally well rated.

An indicative grid provides some overall guidelines regarding the links between opportunities, risks and the overall sustainability opinion.

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3 For every sector, defining key issues is the subject of a specific study. This document is available on Mirova website. https://www.mirova.com/fr/recherche/comprendrelvision
4 *** For Mirova’s investments
Sources


IUCN (2016). Retrieved from https://www.iucn.org/fr/secretariat/%C3%A0-propos


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