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The Danone-Faber affair: the transition to responsible capitalism will not be a smooth ride!

Since activist funds entered the capital of this company, which stands as an example for its history of pursuing Corporate Social Responsibility (CSR) objectives, first demanded and then obtained the departure of Danone's CEO[1], we have been surprised by the turn the media debate has taken. One might have expected that, given the aggressiveness of the campaign to oust Emmanuel Faber, the legitimacy of accusations made by these activist shareholders would be questioned, their motives investigated, and their recommendations (as well as the consequences thereof) examined. Yet nothing of the sort took place, or very little. No, the sole debate that raged was whether Danone and its CEO had not over-emphasised CSR to the detriment of their focus on shareholder value creation! It is with real disappointment that we note that investors who, at least judging by their letters of intent, claim to be converts to Socially Responsible Investment (SRI) have plunged headlong into this one-sided debate without any discernment and, alas, often with arguments similar to those of investors who do not bother to pretend to give any consideration to the environmental and social value of their investments.

We would like to reiterate that the way this debate has been framed and the arguments put forward indicate that battle over the transition to responsible capitalism is far from won. It is worth taking a moment to deconstruct the two main arguments put forward in order to understand the extent to which the concept of what constitutes a responsible company remains largely misunderstood, both by investors—whether they claim to be responsible or not—and by the vast majority of economists, professionals, columnists and commentators.

1. Chief Executive Office

'Emmanuel Faber has clearly failed, since Danone's share price is lagging behind that of its competitors.'

We naively believed that the Business Roundtable[2] had finally tolled the knell for the principle of shareholder value. And yet, we suddenly heard it repeated ad nauseam without the slightest irony. Let's take a moment to remember that SRI is first and foremost a response to the failure of capitalism and the market, which, by making shareholder value their sole concern, has in part fuelled the two greatest crises we face today: environmental crisis and the rise in inequality. Both jeopardise the sustainability of our companies and therefore of society more broadly. The success of a company and its management should not and cannot be judged at a given moment on the comparative merits of total shareholder returns (TSR), but rather over the medium to long term by the company's operational performance and the quality of its environmental and social impacts. Danone's financial results, while predictably affected by the health crisis, remain good, as do the company's environmental and social results. The fact that its TSR lags behind that of competitors is obviously an element to be taken into consideration but should not be decontextualised (let's not forget that said competitors are not exactly comparable, that the observation period is not particularly relevant and that the markets are volatile), nor should TSR become the sole benchmark of a management team's performance.

'Good CSR should not get in the way of good financial results.'

This is true, but neither is good CSR measured by the quality of financial results! Trying to establish a linear and stable correlation between CSR and financial results is tantamount to not understanding (or pretending not to understand) what CSR is about. CSR is not about improving a company's short-term financial results, and nor is it subordinate to it. Financial results are a necessary condition for the implementation of good CSR, just as good CSR is a condition for the long-term sustainability of financial results. But one must be totally ignorant of the strategic issues involved in sustainable development to ignore the fact that certain transformations require investment and consequently weigh on short-term profitability. It is the role of responsible shareholders to first provide the patient capital that will allow the company to change and contribute to an economic system that is sustainable for all, content to profit in the medium to long term.

We are Danone shareholders on behalf of those investors who have entrusted us with their savings. We can only lament that a crisis of faith between a Board of Directors and the CEO should have been decided by the pressure of activist shareholders newly invested in the company, who will probably not remain such for long. We also lament that this crisis of governance has revived the unfounded debate over a supposedly inherent opposition between shareholder profitability and CSR policy.

Beyond these disappointments, we will use our weight as responsible shareholders to ensure that CSR and the 'Entreprise à Mission'[3] status remain at the heart of Danone's business plan (more than 99% of shareholders voted in favour of adopting the 'Entreprise à Mission' model in June 2020)[4] and that the management team is neither judged nor remunerated solely on the basis of short-term stock market criteria, which have already cost the financial markets and the company dearly. We believe in a vision that aims to make Danone the leader in food that is healthy for people and the planet, as well as a company that strengthens its ties with local communities, particularly with local brands. Coupled with good talent management and sound economic and financial husbandry, we have no doubt that our capital will prosper.

Beyond Danone, this debate proves that it is high time we launched a discussion on governance and the role of shareholders. Currently, the term shareholders encompasses individuals or legal entities with motivations that are too diverse to be treated in any uniform manner. Perhaps it is time to think about a 'responsible shareholders' agreement' that would involve duties (patient capital, voting at Annual General Meetings, support for ambitious CSR) as well as specific rights (specific representation in governance bodies, multiple voting rights, payment of dividends in discounted shares, etc.)?

2. Group of CEOs from the largest United States companies

3. Model created by French law in 2019. An 'Entreprise à Mission' is defined as a company whose social and environmental objectives are aligned with its purpose and set out in its Articles of Association

4. Source: *Le Monde* – 23 April 2021

FOCUS Pivot to Asia: will financial markets become illiberal?

It seemed inevitable that President Biden would more or less continue the policy initiated by his two predecessors on the issue of trade relations with China. We mentioned this in our February newsletter (Mirova#6: Has the Western model lost its compass? p.3). Since then, several episodes have indeed brought to light a clear resurgence of tensions that many believed the new occupant of the White House would soothe. Exchanges between the two powers during the summit held in Alaska in March surprised observers by the highly undiplomatic tone of the reproaches, or even invective, that they launched at one another. We had previously called attention to this looming struggle between the two planetary giants: the issue is not one of settling a petty dispute over their trade imbalance, but a geopolitical rivalry for access to resources and zones of influence, paired with a political rivalry in defence of two very different models of government.

United States-China: the conflict will last, not escalate

On the one hand, markets have been relatively quick to find ways of incorporating information about the United States-China trade conflict, overlooking its turbulence and understanding the underlying stakes. On the other, it seems that they do not yet know how to gauge the implications of the sustained geopolitical and political rivalry that will inevitably take shape.

Some market participants consider it premature to worry about this, while others already see major risks of a future confrontation in signs currently issuing from Beijing and Washington, with the fate of Taiwan destined to provide the pretext or trigger for extreme response. But, while it appears lasting, this conflict is not likely to escalate to a military matter. First of all, the U.S. Navy no longer has the means to protect the territorial integrity of the rebel island. China, put its shipyards to work and quadrupled its number of warships in that past twenty years to around 400. The country also has air bases close to Taiwan that a handful of F-16s, such as those the U.S. Air Force recently sent to the South China Sea, would not be able to counter, due to their limited range from Japan, where they are based. Moreover, the composition of China's naval fleet does not really seem designed to provoke the United States, unless it were to ensure the security of certain channels to its suppliers of raw materials. Secondly, China prefers to keep its rise free of conflict; this has worked well for the country in recent decades, and there would be no rational basis for breaking so sharply from such an effective strategy, especially as China has many resources at its disposal to wage its battles underground.

Xi Jinping knows his Sun Tzu

Everyone has read (a bit at least) Sun Tzu's The Art of War, a work so abundantly quoted that referring to it carries a whiff of the high-school student's essay. If so, let us indulge in feeling young a moment, and remember that China perpetuates a strong propensity to want to win without fighting. Xi Jinping and the leaders of the Chinese Communist Party have clearly understood that the PRC does not lack for leverage to achieve just this:

• **Monetary stability:** The surpluses China is generating give it leeway to implement a fairly coherent monetary policy that appeals to its trading partners, who can increasingly trade directly in Yuan without using the dollar. Whereas the BoE[5], ECB[6] et FED[7] have balance sheets that are ballooning at a record-setting pace, the Chinese currency appears to be a haven of stability, which could eventually make it an ersatz standard alongside the dollar;

• **Hong Kong:** The issue gave rise to uproar and protests, but Beijing has regained its grip on Hong Kong, a world-class financial centre which it will use to gain leverage on the debt and foreign exchange markets, which it previously lacked. We are surprised that, outside the United Kingdom, few observers, at least to our knowledge, have noted the importance that this total oversight of Hong Kong will ultimately have for China's financial power. While the operation may not have boosted China's popularity, it was undoubtedly a profitable manoeuvre;

• **Globalisation:** There is no need to go over this well-trod ground, China is the great winner of the globalisation

5. Bank of England
6. European Central Bank
7. Central bank of the United States or also called the Federal Reserve of the United States

precipitated by the West. But it is important to recognise that this globalisation outcome has also resulted in an inextricable dependence on the Middle Kingdom. Its deposits of rare earths, its developed web of industrial subcontracting for the West, and the size of its middle classes which continue to grow and now represent a vital market for a huge part of the world's producers (German and American cars, French wines and leather goods, African minerals, Argentine wheat, Iranian oil, etc.) mean that too many stakeholders now have an interest in going easy on China, because breaking out of the web of links they have woven with the country is at best a dead loss, and at worst a flat-out impossibility;

- **Internet and cryptocurrencies:** A growing part of global consumption now takes place via the internet—about a third in China itself—and if we add to this the future implicit standard status of the Yuan and the preponderance of the Chinese production base in global value added, we have a situation that would weaken Western currencies if China agreed to invoice and pay in cryptocurrency, creating a semi-digital bimetallism under Beijing's control, which would thus take away the United States' monetary privilege. In our opinion, this is the worst-case scenario for the West, which would have few options to oppose it head-on after twenty years of all-out money creation, other than to put an end to globalisation, which, as we have seen, would be neither easy nor without cost.

In short, the financial markets will have to learn to adjust to a world that, after some hundred years, will no longer be dominated by the West and its agents, with the hub moving instead to Asia, a continent that they still have only a sketchy notion of. The activities of Asian companies, their accounting, their financial communication, their management practices, the behaviour of their customers, and the social and legal contexts in which they operate are still poorly understood today. There is much to do and much to learn—and much money to be made.

Illiberal finance or sustainable finance: a choice to be made

The topic of the economic shift from the West to Asia is certainly well-worn, although it must be tempered by the slowness of the process leading to it. The financial markets are bound to follow this shift, and the usual pragmatism of their decision-makers should spare them from excessive struggle when they abandon the West for the distant East. At least, so goes the theory, because at a time when everyone claims to adhere to the principles of SRI, is it possible to neglect the more political question of the governance models China will want to safeguard?

To put it bluntly, do the markets as they currently exist have an interest in contributing to the development of regions governed by authoritarian regimes? We have already written about social inequalities in our January 2020 newsletter (Mirova#3: Should the financial markets worry about social inequalities? p.3) and we apply the same logic to the respect of democratic criteria. We do not believe that contributing to the strengthening of non-democratic regimes and their economic agents by financing them is in the collective interest of Western capital owners or managers. It seems self-evident that some will give in to the temptation to engage with this future Chinese-centric world in order to seek profits: this will force a choice between their SRI convictions—sometimes quite recent—and the reality of supporting harsh regimes. The velvet gloves will come off, as will the SRI facades of players for whom sustainability exists only the realm of slideshows. The Western model makes no claim to be perfect nor does it lend itself to forced exportation, but if it wants to retain its integrity and attractiveness at a time when environmental and social preservation has arisen as a declared—and even shared—objective, sustainable finance will necessarily have to make distinctions. Financing Asian countries that are democratic or in the process of a democratic transition will become one of its essential activities. Conversely, financing those countries in which abandoning authoritarianism is a lost cause would be a contradiction no less intriguing than seeing finance, the so-called champion of liberalism, cohabitate with illiberalism. Chinese communism lured Western capitalism with exceedingly low costs before springing its trap on the working classes, then on the lower middle classes, then on the upper middle classes in Europe and the United States Now it is Chinese illiberalism's turn to seduce liberal markets with a stable monetary policy, a global financial centre and economic prospects. The outcome will be the same: the trap will close. But there is still time to avoid it.

Macroeconomics trends

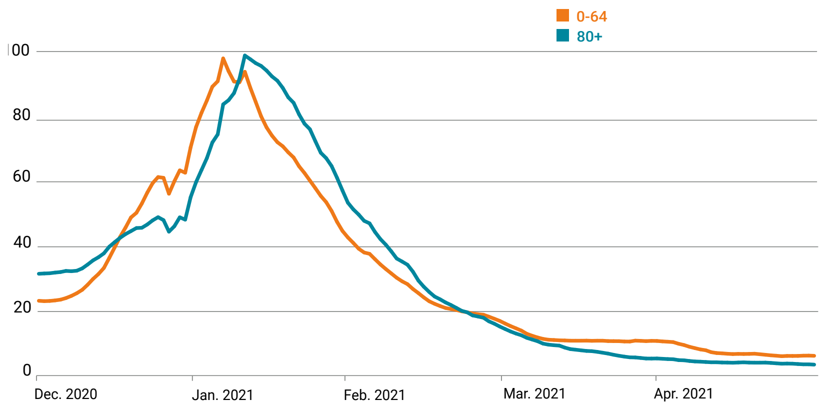
Markets have continued their climb with nary a look back

Risky assets, especially equities, have risen almost continuously since the beginning of the year. Apart from two consolidation movements, one at the end of January when hedge funds had to cut back their positions following the Gamestop affair, the other in mid-February after a vertiginous jump in the United States 10-year rate led to massive profit-taking on long-duration equities, the bullish momentum has never really wavered.

Overall, i) the vigor of macroeconomic dynamics, even in Europe, where the latest wave of the epidemic has led to additional lockdown measures, and ii) the commitment of central banks and governments via the implementation of numerous stimulus plans, notably in the United States, have fuelled a high level of optimism in the markets. In addition, investors have been able to look ahead to the post-Covid era, encouraged by the effectiveness of vaccines in countries where roll outs are most advanced.

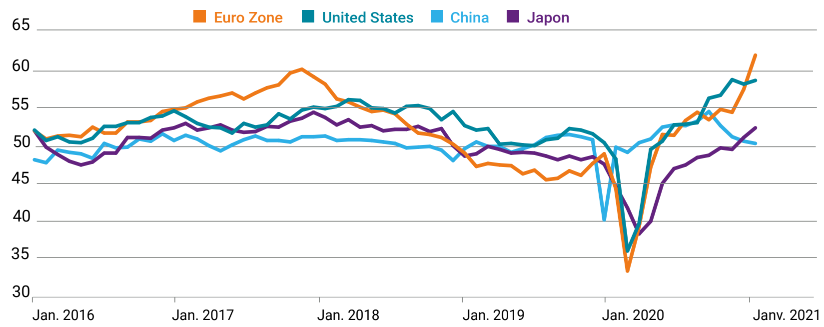
Granted, the news on the macroeconomic side is rather good. In the United States, GDP grew by

GRAPH 1 – UNITED KINGDOM: NEW CASES SEVEN-DAY MOVING AVERAGE – BASE 100 = PEAK NEW CASES



Source: NHS, Green Economy Papers

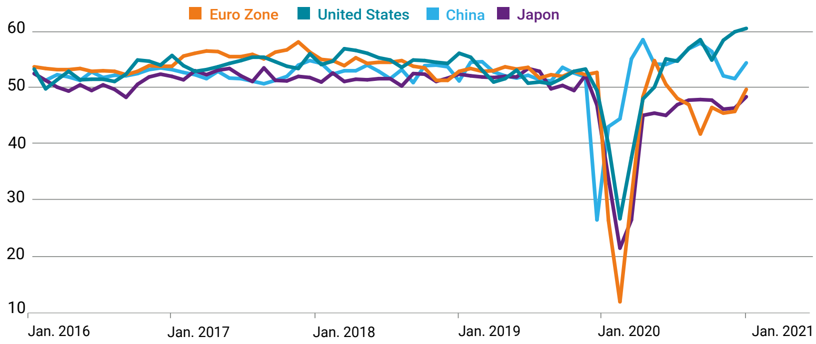
GRAPH 2 – WORLD: MANUFACTURING PMI



Source: Bloomberg, Mirova

an annualised rate of 6.4% in the first quarter, according to figures published by the BEA[8]. Also, the success of the vaccination campaign and the impetus of the 1.9 trillion-dollar stimulus package passed by Congress in March will have a very positive impact on business in the second quarter. Industrial sentiment indicators (PMIs, ISM)[9,10] in the manufacturing and services sectors are at historic highs. Mobility indicators are on the rise again, and employment is recovering significantly, particularly in the sectors most affected by the health crisis, such as hotels, restaurants, tourism and health. In addition, the savings pool of United States households is at an all-time high (8% of GDP),[11] which should support consumer spending in the future—bearing in mind, however, that the lion's share of these savings remains in the hands of the wealthiest households, particularly after the surge in stock prices over the past year.

GRAPH 3 – WORLD: SERVICES PMI



Source: Bloomberg, Mirova

Biden tackles climate change and inequality

Joe Biden plans to direct his recovery policy towards employment, the climate and the middle classes. Following the 1.9 trillion dollars of the American Rescue Plan, dedicated primarily to social aid, the administration released details of his two future plans at the end of April: a 2.3 trillion-dollar plan focused on renewing the country's infrastructure with a particular emphasis on green investments (American Jobs Plan), and a 1.8 trillion-dollar plan[12] to help families and promote education (childcare, parental leave, universal preschool, scholarships, tax credits, etc.), all this over a ten-year period and financed in part by tax increases for companies and the wealthiest households.

The infrastructure plan has several components: the modernisation of transport (roads, bridges) with the construction of a network of 500,000 charging points for electric vehicles by 2030,[13] the modernisation of electricity networks to encourage deployment of renewable energies, a focus on the energy efficiency of buildings, the development of employment and innovation in technologies of the future such as semi-conductors and electric batteries, and a plan in favour of dependent status for the elderly.

The United States is clearly aiming to become a leading force in the fight against global warming. Biden opened the Climate Summit at the end of April by announcing that the United States would cut its carbon emissions in half by 2030 compared to 2005 levels (historic peak), challenging 'climate laggards' to join the race to invest in a more sustainable future and a more prosperous economy, and putting pressure on China, whose carbon emissions have risen by more than 200% since 2000 and now account for 30% of global emissions.[14]

8. Bureau of Economic Analysis
9. Purchasing Managers Index
10. Institut for Supply Management
11. Source: Cahiers verts
12. Source: NY Times – Cahiers verts
13. Source: NY Times – Cahiers verts
14. Source: futura-sciences

Europe should see a brighter horizon at last

In Europe as well, the recovery plan decided last July, which aims to strengthen long-term growth while making it compatible with the ecological transition, is entering the home straight, even if a certain reluctance of the so-called 'frugal' countries remains to be fully overcome. The plan constitutes a genuine step forward towards new financial solidarity within the zone and will help Europe avoid repeating the mistakes of the 2008 crisis. The plan's cost is estimated at around 800 billion euros:[15] some 400 billion euros will be allocated among the States in the form of grants, the amount of which will vary according to the economic situation of each State, while the rest will be distributed in the form of loans. Each country will present a plan describing in detail the investments it plans to make, with a minimum of 20% devoted to digital technology and 37% to the green transition.[16]

With almost 200 billion euros in grants and loans and 30 billion euros[17] in new investments directly financed by the government, the Italian recovery plan is the largest in Europe and aims to 'change the face of Italy' in the words of Mario Draghi. Digitisation, education/research, infrastructure, social cohesion, health and green growth will be the main focuses.

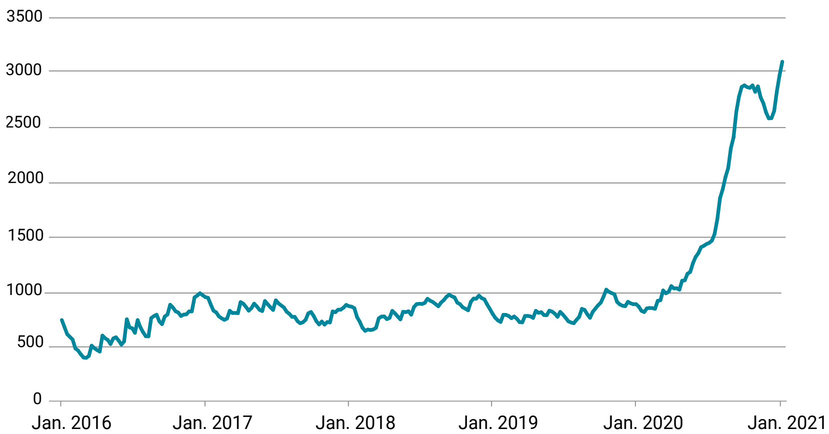
Other national plans will follow. In the meantime, despite a first quarter that once again contracted slightly, following the resurgence of health measures due to the third wave of COVID, the Eurozone's economic outlook has largely recovered in recent months. The manufacturing PMI has reached record levels and the services sector, although still highly constrained, is surprisingly positive. European household confidence is also on an upward trend and is back to pre-COVID levels. Vaccination progress appears to be sufficiently solid to permit a gradual reopening of the economy in the coming weeks and to envisage a return to normal for the summer season. Growth will automatically accelerate in Q2 and Q3 thanks to a recovery in services and a rebound in consumption.

Inflationary pressures and monetary policy

Elsewhere in the world, countries' economic performance appears to be more variable and directly related to the health situation of States and their ability to distribute vaccines and remove health restrictions. Many emerging countries are still unable to control the epidemic. Nevertheless, world trade continues to recover and is benefiting from strong demand for manufactured goods (electronic products, capital goods, etc.), resulting in supply chain bottlenecks and tensions that are sometimes lasting. Combined with the rise in the cost of transport (sea freight), energy and raw materials, this results in higher producer prices and commensurate inflation expectations.

Should we fear these inflationary pressures? How are central banks reacting to this new environment? For the Fed, as for the ECB, it is crucial to wait before considering a change in monetary policy. Employment and inflation (beyond base effects) remain far from their targets. The participation-adjusted unemployment rate in the United States remains well above pre-COVID levels, with more than eight million fewer jobs than at the beginning of 2020. The extra domestic demand boosted by the stimulus packages and the reopening of the economy is not generating wage inflation for the time being, as the majority of goods consumed are manufactured abroad and imported. Only a strong consumption of locally produced services could change the situation, but there is little chance of wage pressures in the short term, given the situation of the labour market. As for the factors responsible for the rise in production costs, the Fed believes that they are transitory and that the situation should gradually normalise. In other words, the Fed is not considering a reduction in

GRAPH 4 – SHANGHAI CONTAINERIZED FREIGHT INDEX



Source: Bloomberg, Mirova

15. Source: European Commission
16. Source: futura-sciences
17. Source: futura-sciences

its asset purchase programme (currently 120 billion dollars per month) until there is a real decline in the unemployment rate and long-term inflation expectations are well anchored above 2%,[18] which should take some time. The timing of when the Fed will begin balance sheet reduction is becoming a key question for the markets.

The same applies to the ECB, which was forced to intervene in March by stepping up its asset purchase programme in response to the rise in euro long-term rates, considering the rebound in inflation to be temporary and the conditions for recovery still fragile. However, once the health restrictions are lifted and growth is on track in a few months, it is likely to reduce its interventions, which could fuel a gradual rise in the German ten-year rate, while keeping an eye how the OAT,[19] bonos[20] and BTP[21] are faring.

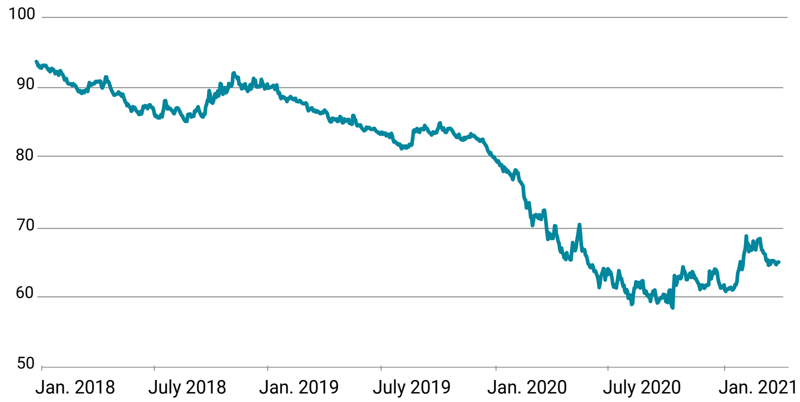
What's the best positioning in this environment?

As expected, risky assets have continued to outperform in recent months. Robust macroeconomic dynamics and central bank commitments have outweighed a resurgence of the epidemic and the appearance of multiple variants. The potential for equity appreciation is now lower in the short term given valuation levels and a number of technical indicators. Nevertheless, we see no real obstacles that would cause us to change our long-risk scenario and would view any market correction as an opportunity to strengthen our positions.

The main—and temporary—threat to this continued upward movement would be a change in tone from central banks suggesting a slowdown in their asset purchase programmes, but we expect this later in the year. Even this will be bearable if the positive momentum of earnings revisions we have seen since the beginning of the year (and which the first quarter earnings season has so far amply confirmed) continues thereafter.

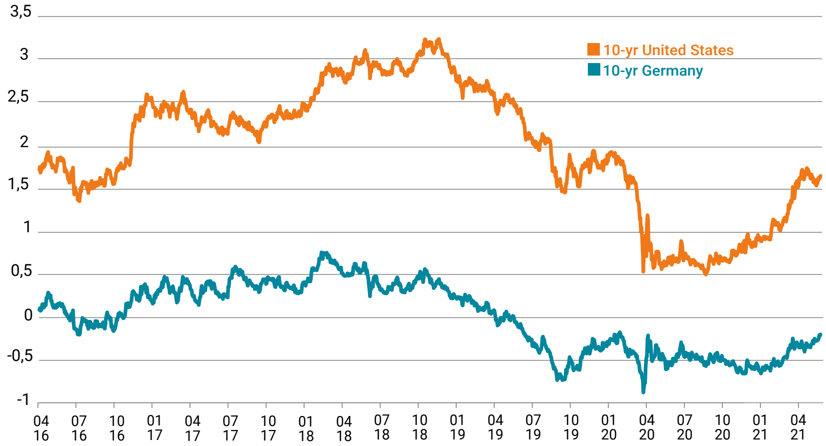
Overall, we are maintaining our overweight position in equities, though we partially reduced this at the end of April, with a preference for European equities (lower interest rate risk than in the United States, potential for positive macroeconomic surprises, valuation and more attractive investor positioning in relative terms). We continue to favour certain value sectors benefiting from rising interest rates as well as stocks buoyed by stimulus plans. We are strengthening renewable energy, which suffered at the beginning of the year. Among defensive sectors, we favour the pharmaceutical industry, which is highly discounted compared to the market despite its strong growth potential. We are still expecting a gradual rise in long-term interest rates and are maintaining our underweight position in sovereign bonds, particularly in the United States, as well as our long credit position, with a preference for high-yield and peripheral European debt (ECB interventions).

GRAPH 5 – MSCI VALUE/MSCI GROWTH



Source : Bloomberg, Mirova

GRAPH 6 – UNITED STATES AND GERMAN 10-YEAR TREASURY RATES



Source : Bloomberg, Mirova

18. Source: Federal Reserve
19. French Treasury bond
20. Spanish bonds
21. Italian Treasury bill

Darling Ingredients, champion of renewable diesel and the circular economy

Darling Ingredients is still largely overlooked by ESG funds, despite its unique position as a leading renewable diesel producer contributing to the decline of GHG's generated by transport and its business model. Mirova has been invested in the company though its global sustainable stratgey since its launch.

Transportation generates about 30% of United States greenhouse gas emissions (GHG). De-carbonising transport is therefore key for the country to achieve net zero target by 2050. California, which generates 7% of United States GHG emissions, was the first state to try to tackle the problem with the California Low Carbon Fuel Standard (LCFS) program managed by the California Air Resources Board (CARB). The LCFS applies to fuels used in transportation such as diesel and gasoline. The original goal of California LCFS was to reduce the Carbon Intensity (CI) of transport fuels by 10% by 2020. When this was reached, the state announced a new target, namely 20% reduction in the CI of transport fuels by 2030. The Carbon Intensity of a fuel is calculated by assessing total GHG emissions over the lifecycle of the fuel, meaning, feedstock production, conversion and use. Fuels in the California transportation fuel pool that have a lower CI than the target set by CARB generate LCFS credits, while those exhibiting a CI higher than the target generate deficits. There are about 250 Regulated Parties who enter all information on fuels imported, refined or sold in California to CARB data system in order to be assigned credits or deficits. Deficits must be covered with credits to comply with the regulation and hence price of credits is determined by supply and demand.

Low CI fuels that generate credits include ethanol, biodiesel, renewable diesel, biogas, hydrogen and electricity for EVs. Renewable diesel has become the biggest credit generator, with 25% share, surpassing ethanol in 2019. It differs from biodiesel by having a cleaner burning and as such being a better substitute to petroleum diesel. Furthermore, renewable diesel can be produced from feedstocks with the lowest CI, such as used cooking oil (UCO) and tallow. Therefore, renewable diesel has the highest LCFC value per gallon translating to higher profitability for the producer. It can provide up to 80% reduction in life cycle greenhouse gas emissions compared to mineral based diesel. Furthermore, when produced from UCO and tallow, it recycles products that would otherwise be considered waste, potentially ending in landfills. Darling Ingredients, through their joint venture, Diamond Green Diesel (DGD), is North America's leading renewable diesel producer. DGD produces renewable diesel from used cooking oil, waste animal fats (tallow) and inedible corn oil, converting them into diesel replacement. Darling's collection network makes it the only vertically integrated producer with low-cost access to UCO and tallow. Darling has a unique global logistics structure for collecting UCO and tallow, giving it a competitive advantage, as feedstock is limited. Darling is the largest collector of waste fat and UCO in the United States securing supply to DGD,

The securities mentioned above are shown for illustrative purpose only, and should not be considered as a recommendation or a solicitation to buy or sell.

while competitors or potential new entrants would have to rely on uncertain supply of low cost and low CI oils and fats.

Diamond Green Diesel is experiencing fast-paced growth. Current production capacity, standing at 275 million gallons, is expected to increase to 675 million when Phase III capacity expansion at the Norco refinery in Louisiana is completed at the end of 2021. Darling and joint-venture partner Valero, have also agreed to build a new 470-million-gallon facility at Valero's Port Arthur, Texas refinery. Operations are expected to begin in 2023, increasing Diamond Green Diesel's production capacity to 1.2 billion gallons of renewable diesel. While Darling will be bringing the integrated supply chain of feedstock, joint-venture partner Valero brings production knowledge and multi-modal inbound and outbound logistics access. Renewable diesel can be produced, transported and used entirely with existing infrastructure. Consequently, Valero has been able to leverage their current refinery and logistics know-how and assets, further improving the product's economics and carbon footprint.

The value of LCFS credits has continued to rise, a trend and is expected to continue as Californian regulations become more demanding with a 20% reduction target in 2030 and new mandates start in other states, such as Washington, Colorado and internationally, for example Canada. In itself, Canada could represent twice the size of Californian demand. Supply will continue to be limited. As there are high barriers to entry for those planning to use soybean oil as a feedstock, players using UCO and tallow have a significant margin advantage. For instance, Darling/DGD's low-cost and low-CI feedstock gives them close to an $0.8/gallon advantage compared with renewable diesel produced from soybeans. We expect DGD to generate a long-term EBITDA[22] margin of $1.5/ gallon. Therefore, given the growth profile on the production side, we expect the company to have exceptional cash flow and earnings growth ahead.

Source: Darling Ingredients

22. Earnings Before Interest, Taxes, Depreciation and Amortization

Metabolic Explorer: An alternative to petrochemical processes via biobased materials

Metabolic Explorer (METEX) is a research laboratory specialising in the development of biobased materials to address new high-growth markets. The company offers manufacturers viable alternatives made from renewable resources and contributes to the transition from petrochemicals to biochemicals.

METEX develops and industrialises eco-responsible bioprocesses to produce functional ingredients, in response to growing demand for biobased products for cosmetics, animal feed and biomaterials. Using renewable raw materials (sugar, glucose, glycerine) and innovative and competitive industrial fermentation processes, METEX meets consumers' societal expectations and addresses the challenges of environmental transition. Functional ingredients of natural origin are used in new industrial formulations, and represent a total market valued at 16 billion euros.23 In this field, METEX benefits from a very strong scientific foundation and holds numerous patents. In 2019, the sale of its Bio L-methionine production patent to Evonik (€45 million) financed a new production site in the Moselle region. Construction of its first production unit, through its subsidiary METEX NØØVISTA, focuses on PDO (1-3 propanediol) and BA (butyric acid). PDO is a highly sought-after ingredient used as a preservative and bacteriological stabiliser in cosmetics, replacing molecules known to be harmful (parabens, formaldehydes, halogens). Butyric acid, for its part, addresses the animal feed market and contributes to the circular economy, thanks to METEX processes using plant-based raw materials. In 2021, METEX expects its Carling site in the Moselle to become operational, with production gradually increasing to 6,000 tonnes. The plant's profitability is based on two strategic partnerships with DSM and Alinova. The production capacity of the PDO/BA plant is fully contracted within the framework of long-term commercial partnerships to secure the plant's profitability.

In addition, METEX is developing the ALTANØØV technology platform to significantly shorten development time for fermentation processes. Here again, METEX is targeting a wide range of functional ingredient markets: animal nutrition/health, human nutrition, high-performance textile fibres, biomaterials, cosmetics, etc. The company has a multi-year product pipeline. The first functional ingredient to enter the demonstrator is glycolic acid (GA), a biodegradable polymer for medical and cosmetic applications. METEX's natural glycolic acid will be the first natural alternative to existing petrochemical processes. 2021 should be the year the biotech firm transforms into an industrial group. In February, METEX announced the acquisition of AANE,[24] the European subsidiary of Japanese group Ajinomoto, on particularly attractive financial terms. AANE is Europe's leader in the production of amino acids by fermentation (35% market share in amino acids for animal nutrition[25]).

23. Source: Advancy expert interviews
24. AANE: 200 million in turnover in 2020, positive EBITDA, 330 employees, 8 products in portfolio
25. Source: METEX

The acquisition of the Amiens production site, with a capacity of 100,000 tonnes, for 15 million euros was very favourably received by the market. The acquisition value is well below the actual value of the assets. This transformative transaction offers opportunities to massify production capacity in order to launch new functional ingredients from the ALTANØØV platform from 2022. Now equipped with a real industrial tool, METEX could become profitable as early as 2021, and reach an EBITDA margin of around 5% in 2022. In the longer term, the acquisition and positioning of METEX in the buoyant markets of biobased functional ingredients in structural growth (~7%) should allow the company to achieve industry average profitability with a double-digit operating margin.

The securities mentioned above are shown for illustrative purpose only, and should not be considered as a recommendation or a solicitation to buy or sell.

Italian sovereign green bond: Chi va verde, va sano![18]

Since mid-2018, the Palazzo Chigi had been occupied by a single figure, Giuseppe Conte, who navigated the pitfalls of Italian political life with verve until Matteo Renzi orchestrated a change of occupant, sidestepping elections to install a new president of the Council. Mario Draghi, the ninth individual to hold this post since the beginning of the 21st century, took over the reins of the Italian executive branch in February.

At the end of 2020, Mr Conte's government team had confirmed the forthcoming launch of a sovereign green bond; did his replacement by Mr Draghi as President of the Council call this project into question? Not in the least, and the Treasury was thus able to raise 8.5 billion euros by issuing its green bond last March, with a maturity of 24 years

Following France, the Netherlands, Sweden, Hungary, Germany, and beating out the United Kingdom (see Mirovα#6: Britannia, rule the green bond waves, p.14), Italy thus joins the club of European countries that have devised a green and/or social bond programme whose objectives are consistent with those defined by the European Union (for countries still part of it) regarding the need to reach carbon neutrality by 2050.

Like the green bonds of other European states that have issued them, Italy's issue has been a success, which can be partly attributed to Mr Draghi's confidence in the financial markets, though it also owes much to the popularity of this type of instrument.

In any event, it should be noted that this green bond will also commit Mr Draghi's successors, henceforth obliged to adhere to the prescribed uses of the funds raised, which are largely allocated to transport, but apply to other types of projects as well.

What are they?

1 – Renewable energy and heating (1% of green bond use)

This of course includes the development of solar, wind, geothermal, hydrogen and hydroelectricity and any other energy production that emits less than 100g of CO_2 per kWh generated. The framework goes so far as to stipulate that the electricity used for electrolysis to generate hydrogen should likewise not exceed 100g of CO_2-eq[27] per kWh.

GRAPH 7 – EUROPE'S SOVEREIGN GREEN BONDS

	France		Netherlands	Hungary	Sweden	Germany	Italy
Launch	2017	2021	2019	2020	2020	2020	2021
Size (€bn)	28.9	7	10.7	1.5	≈ 2	6.5	8.5
Coupon (%)	1.75	0.5	0.5	1.75	0.125	0	1.5
Maturity	2039	2044	2040	2035	2030	2030	2045
Currency	€	€	€	SEK	€	€	€

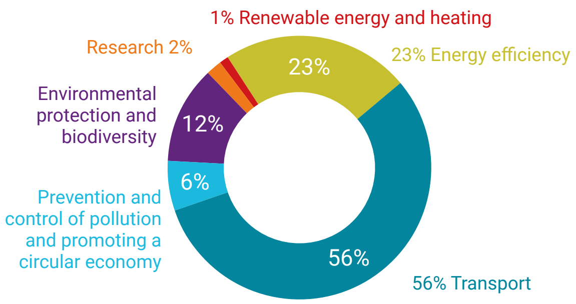
Sources: Bloomberg, treasuries of France, Hungary, Germany, Italy, the Netherlands and Sweden

26. To go green is to go strong
27. CO_2 equivalent

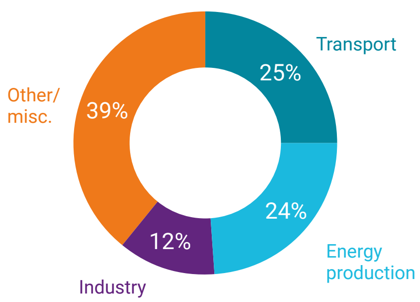
2 – Energy efficiency (23%)
Work to improve thermal insulation will also be eligible.
3 – Transport (55%).
The Italian green bond is clearly, and unsurprisingly, aimed at rail transport and motorways, as well as at maritime transport. For passenger rail, the main objective is to electrify all tracks after 2025 or, failing that, to equip trains with fuel cells to replace those still running on diesel. Freight rail transport has been assigned CO_2 emission targets in line with those of the EU, which will be reviewed in 2025. The same logic applies to road transport: European directives, in this case regulations on alternative fuels, govern how targets to be reached are set: at least a quarter of the energy needed to power the means of road transport should come from electricity, methane, liquefied natural gas or hydrogen. As for maritime transport, the plan consists of financing the electrification of port equipment instead of repurposing, for example, the diesel engines of ships in port, and also using fuels containing less than 0.5% sulphur and emitting fewer greenhouse gases.
4 – Prevention and control of pollution and promoting a circular economy (6%).
Expenditure and investments aimed at promoting sustainable consumption and production patterns as well as developing systems/equipment for monitoring and controlling pollution or waste will be eligible. Note that assets enabling incineration, desalination, landfills and biomass are excluded.
5 – Environmental protection and biodiversity (12%).
Projects for the protection of soil, marine and/or terrestrial biodiversity, ecosystems and water harvesting will also be eligible for green bond financing.
6 – Research (2%).
Among others, research projects on policies to accelerate achievement of the UN Sustainable Development Goals (SDGs), on the transition to a circular economy, on innovation in production processes to reduce their carbon footprint or water consumption, and on energy efficiency will also be eligible.
Italy, the main beneficiary of the budgets that the EU wants to devote to post-COVID recovery under its Next Generation EU[28] plan, thus shows what kind of projects its successive government teams are targeting. Even though Mr Renzi has skilfully played on a few gaps in the strategy for deploying the funds to come, these projects are largely in line with the EU's own objectives. In Italy, as elsewhere in Europe, recovery will come, in part, through a move towards a green focus. Next up is Spain…

Source: Treasury Department of the Republic of Italy

GRAPH 8 – BREAKDOWN OF THE USE OF GREEN BOND FUNDS BY TYPE OF OBJECTIVE



GRAPH 9 – DISTRIBUTION OF ITALY'S GREENHOUSE GAS EMISSIONS BY SOURCE



Sources: Public Treasury of the Republic of Italy, March 2021

28. European recovery plan validated by the 27 heads of state and government on 21 July 2020

FOCUS The forest of discord

At the end of April, five associations, including the World Wide Fund for Nature withdrew from the European platform on sustainable finance following changes to the European taxonomy, specifically those relating to the issues of forestry and bioenergy. The NGOs[29] criticise the European Commission for setting criteria that are not sufficiently protective of forests. This firm stance illustrates the sensitivity of debates over the contribution of forests and agriculture to the environmental transition.

On the one hand, biomass, whether from wood or plants, has undeniable environmental advantages for many sectors of activity. In terms of construction, wood is often a viable alternative to cement or steel, the production of which involves very high emissions of greenhouse gases. In terms of electricity production, the development of renewables calls for strong growth in the production of solar and wind energy. But these energies, which are intermittent by nature, will have to be supplemented by other sources that can be activated on demand, such as hydraulic dams or biomass power plants. Even though the greenhouse gas emissions of these power plants are significant, they are theoretically compensated by the fact that the CO_2 emitted was captured during the growth of the wood, making it possible to approach a certain degree of carbon neutrality. Wood and biomethane can also play a significant role in reducing the emissions involved in heating buildings as a means of reducing our dependence on fossil fuels, fuel oil and natural gas. In the transport sector, second-generation agrofuels could also provide an alternative to oil, particularly in aviation, where it will probably be decades before we see significant deployment of technological breakthroughs such as the hydrogen aircraft. And in the consumer goods industry, whether for packaging or clothing production, cardboard and plant fibres are already providing alternatives to plastic, which is mainly produced from oil and poses major end-of-life pollution problems.

Can wood and other biomass-based solutions be considered as miracle solutions? NGOs are right to highlight the risks to forests. Efforts made over the last few decades have reduced the rate of deforestation worldwide. Nevertheless, forest cover continues to decline globally, whereas meeting climate objectives requires, on the contrary, an increase in forest cover. Forest area fell from 31.9% to 31.2% of the world's land area between 2000 and 2020, a net loss of almost 100 million hectares of forest worldwide, a surface almost twice the size of mainland France[30]. Deforestation continues today, mainly in South America and Sub-Saharan Africa, due to the expansion of agricultural land, often razing forests with high biodiversity. Elsewhere, the growth of forests is still most often achieved through intensive monocultures that can cause local problems of soil degradation and permit only a limited return of biodiversity.

NGOs are rightly exercising their power in calling for the adoption of stringent criteria to ensure that the use of wood and biomass in the taxonomy does not lead to forest degradation. However, it seems illusory to hope to achieve the climate objectives without an increased use of wood and biomass in many sectors of activity. The Commission is right to include this sector as a green activity within the taxonomy. Discussions will continue in the coming months on the precise eligibility criteria for forestry and biomass projects. We will remain attentive to these legislative developments and will continue in all cases to review practices on a case-by-case basis to ensure the absence of deforestation as well as agricultural practices that are sustainable for local ecosystems for all our biomass investments.

29. Non-governmental organisation
30. FAO, 2020

Policy and regulatory news

European Union: the continent maintains its lead despite some setbacks

There is still a great deal going on in Europe in terms of sustainable finance. In addition to the confirmation that at least 30% of the Next Generation EU recovery plan is to be financed by the issuance of green bonds, new texts published on 21 April 2021 supplement or clarify various regulatory provisions resulting from the action plan on sustainable finance.
Of particular note are:

• **Taxonomy :** Following protracted debate, the climate-related criteria (mitigation and adaptation) have been published by the European Union Commission, and should soon allow the first branch of the European taxonomy of green activities to be enshrined in European law. It should be noted that, following the highly politicised debates between Member States and stakeholders on its composition, the Commission has not included the most controversial activities (in particular natural gas and nuclear power) at this stage, with the idea both of not holding up publication of a first text and of ensuring that the taxonomy does not pre-empt the finalisation of European policies dedicated to these sectors, which is currently underway. Nuclear energy will be added later if its sustainability assessment, conducted in a separate process, is deemed positive. Agriculture will be included after the reform of the Common Agricultural Policy, while the criteria for bioenergy and forestry can be adapted after a revision of the Renewable Energy Directive (REDII) and the EU Forest Strategy this summer. The transition criteria for natural gas will also be addressed in a separate text.

• **Investment and insurance advice:** When assessing suitability for an investment, an advisor is now obligated to discuss the client's sustainability preferences. However, provisions in the text for offering savers sustainable products still raise many questions.

• **Supervision and governance of investment and insurance products:** Financial product manufacturers and financial advisors will have to take sustainability factors into account when designing financial products.

The Council and the European Parliament now have 4 months (which can be extended to 6 months) to endorse or contest each of these texts (which can no longer be amended in detail). The European Commission is also expected to announce its renewed sustainable finance strategy by this summer.

Focus on the Ecolabel - Mirova expresses its concerns

In parallel with regulatory developments, the project to create a voluntary European ecolabel for sustainable financial products, launched by the European Commission in 2018, is poised for completion with the publication in April of a fourth version of draft specifications. Mirova, which has accompanied and supported the initiative from the start, has published an opinion piece to express its concerns about the current outcome of discussions.

As things stand, we are very concerned that the Ecolabel will fail to meet its stated objective of providing retail investors with green investment products. The main—but not the only—reason for this lies in the impossibility of developing listed equity products that meet the current draft specifications.
This would deprive savers of an ambitious ecolabel. More importantly, the ecolabel could be a failure in terms of sustainability, as the absence or very low number of labelable funds will not encourage companies to shift their business models towards a green economy. It could also be a disappointment in terms of sustainable finance, with a clumsy use of the proposed taxonomy of 'green' activities. If our analysis proves correct, the development of the first ever European sustainable finance standard will unfortunately not stimulate investments towards more sustainability. Its added value will then be questionable.

Read our full analysis: European retail investors deserve an ambitious EU ecolabel

United States: the new Biden administration launches a strong drive for sustainable finance

The new Biden administration is spearheading climate and climate finance as a policy priority, in stark contrast to the previous administration. In the context of the Leaders' Summit on Climate, where the United States announced that it would reduce its greenhouse gas emissions by 50% compared to 2005, the United States administration published an international climate finance plan. This plan covers five main objectives, specifically: 1) massively increase climate finance and strengthen its impact (the United States plans to double its public financing in developing countries and triple its financing for climate adaptation by 2024); 2) mobilise private finance; 3) make progress in curtailing official financing of fossil fuels; 4) direct capital flows into low-carbon channels; 5) define, measure and report on United States public climate finance.

The internal debate in the United States has also focused since last spring on the rise of extra-financial transparency requirements. In May 2020, the Investor Advisory Committee of the Security and Exchange Commission (SEC) approved recommendations urging the Commission to launch an effort to update issuer reporting requirements. The idea was to include important environmental, social and governance (ESG) factors that are relevant for decision-making. In December 2020, the SEC's ESG subcommittee of the Asset Management Advisory Committee issued a preliminary recommendation that the Commission require the adoption of standards for issuers to disclose material ESG risks. The SEC has since launched a public consultation on the topic of climate change disclosures and whether current disclosures adequately inform investors.

Singapore: first discussions around a green taxonomy

The trend towards the development of sustainable finance is continuing everywhere, particularly in Asia. For example, the Monetary Authority of Singapore (MAS) launched a consultation in March to consider its own draft taxonomy of green activities, potentially inspired by the one developed within the European Union. Mirova responded to this consultation to answer questions on the success factors of such a taxonomy, the risks associated with its development, and specific questions on the inclusion of certain sectors.

Mirova Consolidated Equity

31/03/2021 – Index: MSCI Europe

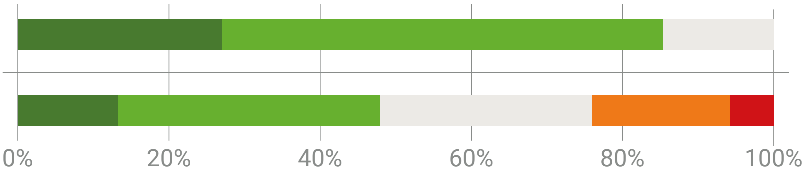
Impact on the achievement of the SUSTAINABLE DEVELOPMENT GOALS (SDGs)

EXPOSURE TO POSITIVE/COMMITTED IMPACT ON SDGS

Strategy 87%
VS.
Index 48%

Coverage rate for strategy 98%
Coverage rate for the index: 100%

% OF ASSETS*



*Cash and cash equivalent excluded

Source: Mirova

Key impact indicators

CLIMATE CHANGE

Climate change trajectory

Strategy
+1.5°C
VS.
Index
+3.6°C

Coverage rate for strategy: 97%
Coverage rate for the index: 99%

Source: Carbone4/Mirova

GENDER EQUALITY

Women in executive committees

Strategy
19%
VS.
Index
16%

Coverage rate for strategy: 96%
Coverage rate for the index: 100%

Source: Mirova

EMPLOYMENT

Average yearly change in workforce (2016-2019)

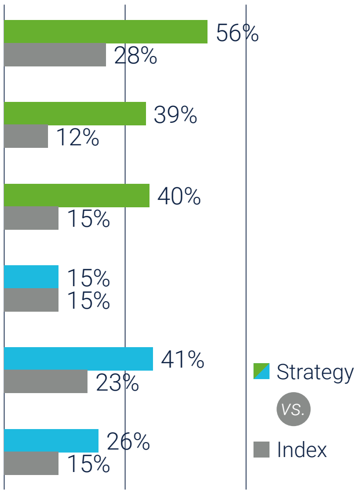
Strategy
3%
VS.
Index
2%

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*



		Share of positive/commited contributors* (Strategy)	(Index)	Corresponding SDGs
ENVIRONMENT	CLIMATE STABILITY Limit GHG levels to stabilize global temperature rise under 2°C	56%	28%	9, 13
ENVIRONMENT	HEALTHY ECO-SYSTEMS Maintain ecologically sound landscapes and seas for nature and people	39%	12%	14, 15
ENVIRONMENT	RESOURCE SECURITY Preserve stocks of natural resources through efficient and circular use	40%	15%	12
SOCIAL	BASIC NEEDS Basic services (Food, water, energy, shelter,health, etc.) for all	15%	15%	1, 2, 3, 6, 7, 10
SOCIAL	WELL BEING Enhanced health, education, justice and equality of opportunity for all	41%	23%	3, 4, 5, 10, 11, 16
SOCIAL	DECENT WORK Secure, socially inclusive jobs and working conditions for all	26%	15%	8, 9, 10

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

Source: Mirova

Mirova Consolidated Fixed Income

31/03/2021 – Index: Barclays Euro Aggregate Corporate

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

EXPOSURE TO POSITIVE/COMMITTED IMPACT ON SDGS

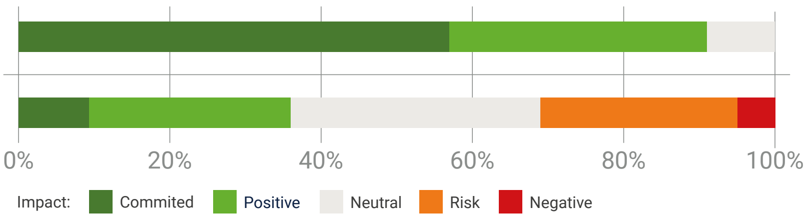
Strategy 91%

VS.

Index 39%

Coverage rate for strategy: 98%
Coverage rate for the index: 100%

% OF ASSETS*



*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: 62%
Coverage rate for the index: 86%

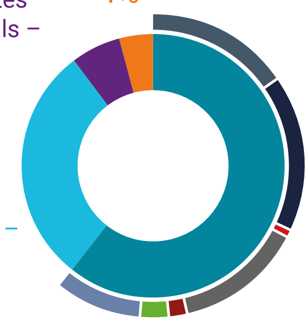
Source: Carbone4/Mirova

SUSTAINABILITY BONDS

Sovereigns 4%

Corporates – financials – 6%

Corporates – non financials – 29%



Sustainability bonds 60%

15% Renewable energy
16% Energy efficiency
1% Sustainable waste & water management
13% Clean transportation
2% Other environmental
0% Affordable housing
3% Other social
9% Diversified

Source: Mirova

Impact mapping to the SDGs

Share of positive 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

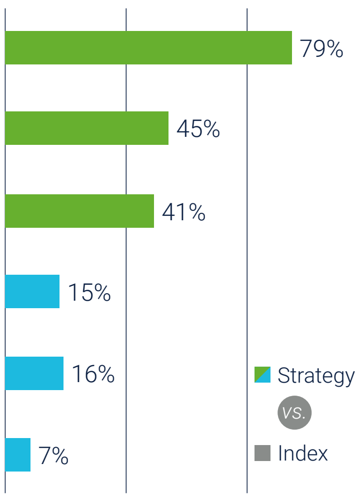
RESOURCE SECURITY
Preserve stocks of natural resources through efficient and circular use

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

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By using ESG criteria in the investment policy, the relevant Fund's objective would in particular be to better manage sustainability risk and generate sustainable, long-term returns. ESG criteria may be generated using Mirova's proprietary models, third party models and data or a combination of both. The assessment criteria may change over time or vary depending on the sector or industry in which the relevant issuer operates. Applying ESG criteria to the investment process may lead Mirova to invest in or exclude securities for non-financial reasons, irrespective of market opportunities available. ESG data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that Mirova may incorrectly assess a security or issuer, resulting in the incorrect direct or indirect inclusion or exclusion of a security in the portfolio of a Fund.

Mirova aims, for all its investments, to propose portfolios consistent with a climate trajectory of less than 2°C defined in the Paris Agreements of 2015, and systematically displays the carbon impact of its investments (excluding Social impact and Natural Capital funds), calculated from a proprietary methodology that may involve biases.
For more information on our methodologies, please refer to our Mirova website: www.mirova.com/en/research
Mirova Voting and Engagement policy and transparency codes are available on its website: www.mirova.com

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ADDITIONAL NOTES

All amounts shown are expressed in USD unless otherwise indicated.