

Mirova Engagement Principles

2024 focus & process for listed companies



An affiliate of:



This document presents Mirova's 2023 priorities for discussion with listed companies on environmental, social, and governance topics. The material provided reflects MIROVA's views as of the date of this document and may change without notice.

As a responsible investor, Mirova believes a positive impact can be achieved both through our investment choices and by engaging in constructive dialogue with companies. To this end, we engage with companies on an ongoing basis each year. We focus on the environmental and social challenges and practices specific to each company, and their contribution to the United Nations Sustainable Development Goals (UN SDGs)¹.

The goal of this document is to provide our clients, portfolio companies and other interested parties with a view into our: 1.) Engagement Expectations: the thematic areas of focus with specific points of emphasis our team will have in the coming year during our ongoing, ad hoc engagements and 2.) Engagement Strategy: an overview of “how we do engagement” at Mirova. This consists of an understanding of the oversight of our stewardship program and the engagement strategy for our listed assets including how we select engagements, how we prioritize and how we escalate. We hope this provides a useful resource for those looking to understand more about how Mirova approaches engagement.

I. Engagement Expectations

We align our engagement expectations with our approach to our internal Environmental Social Governance (ESG) assessment which is underpinned by four driving thematic: climate, biodiversity, social opportunities, and human capital. Below we outline specific points under each thematic that we expect our portfolio companies to be considering and willing to exchange dialogue on.

All our engagement is underpinned with the message that a company must provide transparent, relevant, and reliable information to its stakeholders to accurately communicate its current situation and strategy. The information provided should also address social, environmental, and governance issues. In addition, we expect companies to develop measurable performance indicators of their contribution to the Sustainable Development Goals (SDGs) and disclose both the positive and negative impacts of their operations. To do so, we expect at least a publication of an audited sustainability report containing the company’s extra-financial information and key metrics to enable tracking of year-on-year environmental and social performance as well as positive and negative externalities.

We look to address both the mitigation of adverse impact and the vectors of contribution to the SDGs relevant to the companies in which we invest, to promote decisions that serve the best long-term interest of company stakeholders.

We believe these themes should be addressed by all companies, irrespective of sector, size, and stage of development to contribute towards positive, long-term value creation that benefits both shareholders and the broader stakeholder community.

¹ Details on the key environmental and social issues identified for engagement for each sector are available on our website: <https://www.mirova.com/en/research/understand>



Climate Change



Should we fail to limit temperature rise to 2°C or less², there is global consensus that climate change will wreak havoc and lead to vast costs. To mitigate the costs and impacts of climate change, we have no choice but to reduce emissions as quickly as possible while building resilience in the areas that will be affected. Ensuring an adequate response to the climate change challenge through appropriate decarbonisation measures is an imperative for all companies.

Actions expected:

- **Measure** greenhouse gas emissions using a lifecycle approach that considers scope 3³ (when relevant).
- **Avoid & Reduce Greenhouse Gases emissions by:**
 - Setting Science-Based Targets, as SBTi⁴ signatories.
 - Implementing strategies to reduce the greenhouse gas emissions associated with the company's broader activities, including indirect emissions.
- **Insetting, Carbon offset and negative emissions**

While companies should not rely on compensation to achieve carbon neutrality, it can be considered for irreducible emissions. We expect transparency on the projects invested under the offsetting program and we expect companies to provide a related report on a separate basis. Companies using forestry and agriculture-based commodities are encouraged to deploy insetting of their emissions through engagement with suppliers on land related emissions.

- We encourage companies to set SBTi-FLAG⁵ targets on commodity intensity reduction.
- In the context of high exposure to physical risks, we expect a company to communicate on this and on measures implemented to ensure **adaptation**.

Biodiversity



Scientists are unanimous: on land and at sea, wildlife populations are declining sharply as their natural habitats are deteriorate more by the day. Despite increasing awareness around the need for sustainable land and forest management, forests are shrinking worldwide. Environmental degradation already affects human health and could ultimately threaten global food security.

² According to the Paris Agreement, that sets the global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.

³ Mirova's definition of Scope 3 emissions is based on the "Technical Guidance For Calculating Scope 3 Emissions" of the GHG Protocol which develops 15 categories.

⁴ [Science Based Targets](#)

⁵ Science Based Targets Initiative – Forest Land Use and Agriculture



Our extractive economics induce excess resource use and pollutions that constitute substantial pressures driving an erosion of biodiversity.

It is becoming increasingly evident that restoring biodiversity and ecosystem functions would support a striving economy. We thus believe that preserving biodiversity must urgently become a high-priority objective. Companies should assess the relationship between their activities and natural ecosystems and work to preserve biodiversity. Besides transition to a more circular economy could mitigate pressures drivers thanks to reduced use of virgin material and avoidance of unnecessary pollutions. Companies could accelerate the transformation of their businesses towards a more resilient and circular approach.

Actions expected:

- **Assess** and identify the most material biodiversity impacts and dependencies on nature and where they occur in the value chain, at least for high stake industries.
- **Interpretate and prioritize** different areas across the spheres of influence of the company where actions can be taken.
- **Measure, set targets to mitigate biodiversity risks** these targets, methodologies, and baselines according to SBTN⁶ land and freshwater guidance.
- **Disclose impact**, dependence risks and opportunities related to nature aligned with TNFD⁷ disclosures recommendations.
- **Take action by:**
 - Committing to avoid deforestation or destruction of any natural habitats, promote conversion of all-natural habitat and conversion of all areas of high conservation value through sustainable sourcing programs,
 - Assessing dependency on water throughout supply chain and deploy risk mitigation plans in high water risk areas,
 - Disclosing hazardous chemicals used or manufactured according to regulations and international conventions, and
 - Eco-design products, disclose targets to increase recycled content, develop circular loop and take back models, ensure actual recyclability, reduce direct emissions, wastes and wastewater.

⁶ Science Based Targets for Nature

⁷ Taskforce on Nature-related Financial Disclosure



Social Opportunities



Global indicators we use to measure socioeconomic progress have mainly evolved in a positive way in the past decades. For example, life expectancy ramped up from 66.8 years in 2000 to 73.4 years in 2019 or years of healthy lifestyle also increased by 8% during the same time period, etc. However, while some indicators are still progressing, there is an alarming slowdown, notably in poverty reduction or quality education, that suggest that, without further effort, we won't reach the objectives set by the SDGs. Promoting the development of new products to address these issues as well as persisting inequalities is a prerequisite for sustainable development. We must also account for upcoming health threats, a consequence of air pollution and climate change, unhealthy and poor nutrition habits, novel chemicals, and plastic pollutions. While the positive impact on this pillar is mainly driven by activities, the implementation of quality management processes and the development of safe products is a crucial pillar of all sectors.

Actions expected:

- Implement relevant **access strategies** for basic needs products, development of local infrastructures and services in underserved regions (banking, medical, infrastructure, energy etc).
- Ensure the development of products and services that positively contributes to social challenges such as unmet medical needs, antimicrobial resistance, healthy nutrition, inequalities etc.
- Improve **product transparency** especially with regards to dangerous chemicals, or hazardous ingredients as well as include the impact on consumer health in eco-design strategy.
- Provide information on evidence used to demonstrate **product safety** including tests conducted by objective third-parties, call-backs/recalls and corrective measures following controversies.

Human Capital

Job Quality



In the past few years, starting with the COVID19 crisis in 2020, the labour market has been challenged in many ways, which has brought social issues at the top of the agenda for investors, governments, and other stakeholders. On the one side, employees have experienced massive layoffs in many sectors, as companies rectified their optimistic hiring policies during COVID19 or anticipated rather gloomy economic perspectives. On the other side, and in an inflationary environment, employees are trying to claim for their rights and their fair share of the value created, resulting in an unexpected higher number of strikes, notably in sectors where labour shortage are still a reality. Coming forward, companies also have the responsibility to anticipate the negative socioeconomic externalities resulting from the transition to a low carbon business model to avoid further disruption and unemployment. Retaining and training talent to ensure the adequacy of their skillsets with upcoming challenges is crucial. This transition does not only apply to employees and human rights issues related to the sourcing of critical materials to ensure the environmental transitions have been in the spotlight and companies' approach needs to be strengthened.

Yet, investors' ability to truly assess and promote advanced job quality policies, i.e., the relevance of the company's measures to support employee and suppliers' development is limited due to the lack of harmonized human capital data.

Actions expected:

- Improve transparency and **provide comparable metrics** on Human Capital management incl. employee turnover, benefits provided to employees, payroll, investment in non-mandatory trainings, etc.
- Provide evidence on a **human capital management strategy** addressing material social issues with regards to the business model of the company, including details on benefits and remuneration (employees and suppliers), career development and anticipation in the shift of certain skills, freedom of association mechanisms, measures to enhance employee's engagement...
- Implement an **ambitious health & safety** policy with clear targets including direct employees and contractors.
- **Implement robust human rights due diligence processes** to identify, prevent, mitigate potential violations both in direct scope and suppliers. The process should include assessing actual and potential human rights impacts, integrating, and acting upon the findings (including dedicated trainings, action plan followed by internal and external on-site audits), tracking responses, and communicating how impacts are addressed.
- **Assess the impact of activities on relevant local communities** and provide robust and effective stakeholder dialogue mechanisms.



Diversity and Inclusion



Achievement of gender equality is a prerequisite for sustainable development, but there is a demonstrated need for further progress. In addition to gender pay gap, discrimination and social norms shape the conditions under which women, and discriminated populations in general, may participate in the labour force. At this point, women are still less likely than men to join the labour force and undertake paid work and will then struggle in breaking the glass ceiling. While we have seen progress with respect to the increase of females on boards, most companies still fall short when it comes to ensuring equal opportunities for men and women at middle- and top-management levels, and even less so for other diversities beyond gender (such as geographically, age, educational background, ethnicity etc).

Actions expected:

- Adopt and disclose **group-wide targets to improve diverse representation** at the management and executive level.
- Implement measures to promote **inclusion and awareness**, including parental leave, trainings, pay gap analysis, mentorships programs, networking groups or schools' partnerships.
- Adopt **anti-discrimination policies** within the company as well as a robust complaints/ whistleblowing management system with effective corrective measures.
- Initiate **awareness programs with direct suppliers** to promote diversity, identify diversity priorities to address with suppliers and join industry-wide initiatives to improve diversity in sectors with low female representation.

Governance of Sustainability



Mirova aims to promote the development of a corporate vision focused on the creation of collective value over the long term. Corporate governance should be shaped to include the interests of its key stakeholders. We believe that the creation of wealth requires a long-term perspective, which considers sustainability issues. Mirova encourages companies to include environmental and social issues in its purpose, and to adapt their articles of association accordingly. We feel that shareholders have a role to play in spreading this vision of what a company should be. Thus, we are promoting the development of a long-term shareholder base, the creation of governing bodies that serve all stakeholders and address Corporate Social Responsibility (CSR)*issues, the introduction of a compensation policy which is not only fair to its stakeholders, but which also promotes sustainable growth, and -increased transparency and a better quality of both financial and extra financial information, through annual audited reports covering all these issues. Advanced governance practices only foster sustainability but is not a standalone driver of impact.

Stakeholder integration in decision process

Actions expected:

- Create of a Sustainable Development Committee or sustainability representative at Board-level.
- Integration of sustainability criteria – assessed through pre-determined, quantifiable metrics– into the variable compensation of top executives.
- Strive towards the model of a purpose-driven organization, signalling commitment to long-term shared value creation.

Fairness

Actions expected:

- Disclose policy around **shared value creation**.
- Disclose **breakdown of value creation among stakeholders**, improving transparency around employee remuneration and payroll.
- Provide country-by-country reporting on **tax payments**. We encourage disclosures relating to tax payment to be easily accessible and understandable to the shareholder base.
- Provide disclosure that contemplates the company's approach to employee remuneration within the **context of economic fluctuations such as inflation** and/or cost of living pressure.
- **Publish value-addition sharing breakdown** among stakeholders to demonstrate how value created is shared fairly amongst company stakeholders.

II. Engagement Strategy

1. Mirova Engagement Priorities and ad hoc ongoing engagement

As a basic step to open dialogue with companies, Mirova shares its annual Engagement Expectations with all listed portfolio companies (Part 1 of this document). This document is updated on an annual basis and outlines our vision with respect to 1.) the development of solutions, 2.) advanced practices we advise, 3.) risk mitigation. This initial contact allows us to proactively communicate with our portfolio companies to set the ground for the year ahead. Throughout the year, our team conducts hundreds of ad hoc dialogues that relate to issues that are most relevant to our portfolios, sustainability investment thesis, exchange views prior to proxy voting or thematic engagement related to specific funds.

2. Identification of Severe Controversies

Our Sustainability Research team conducts weekly newsflow monitoring based on Mirova's newsfeed service provider. This review involves qualifying controversies in light of the recurrence of the issue, the magnitude of the case and the company's response. In cases of recurring, systemic and/or inappropriately addressed malpractice with significant negative environmental / social impact, the controversy is deemed "severe". Severe controversies automatically trigger a Targeted Engagement Program.

Depending on the company's ability to respond to this Targeted Engagement Program within the expected timeline, the controversy may be found appropriately mitigated and the case closed, or the company may be divested. Generally, appropriate mitigation involves in-depth review of the causes that led to the malpractice, deployment of an action plan to prevent recurrence and reparation of harm done.

Severe controversies are documented in Mirova's internal newsflow module and impacted in Mirova's sustainability opinions. Any ongoing Severe Controversy will be disclosed in Mirova's annual engagement report or ad hoc client report.

3. Targeted Engagement Program

Mirova selects companies with whom we engage on a regular basis based on various factors. Aligned with our Sustainability Research Methodology, we engage with companies to maximize the sustainability opportunities delivered by the business or/and to improve risks management processes and transparency. We use these dialogues to push for progress in distinct areas that we feel are critical to the long-term impact of the company.

We have developed a three-prong approach to our targeted engagement program:

1. **Sustainability Risk Mitigation:** We proactively engage with all companies where our Sustainability Team has determined there to be a considerable amount of risk, whether it be due to a one-time severe controversy or to the inherent nature of the business. The Sustainability Analyst determines the frequency of monitoring and the specific goals for the engagement.
2. **Thematic Priorities:** We have defined a list of companies exposed to specific industry-wide issues that we believe individual companies may not



be able to address on their own due to the complexity of the issue (supply chain related, emerging pollutions, etc). These engagements are usually supported by collaborative initiatives, and we aim to participate in the development of commonly accepted framework and methodologies as well as KPIs to help investors integrating these topics in their analysis.

3. **Best Practice Promotion:** We engage companies where we feel our sustainability expertise can help guide and build on the company's sustainability journey. These are often longer-term engagements as we engage in a productive dialogue over time to encourage best practices.

Objectives and targets: These engagements have specific goals and, where appropriate, are attached with specific targets and a timeline defined by Mirova's Sustainability Research Team. Every engagement is tied to at least one direct and explicit demand to the company. The number of objectives per company may vary and progresses are documented and reviewed internally every quarter.

Coverage and frequency of engagement: There is no formalized objective in terms of coverage, as Mirova prioritizes based on relevance and potential impact. We seek to have quarterly to bi-annual contacts, but it may vary depending on the goal of the engagement, the issue at stake, as well as on the size and capabilities of the company.

Mirova also leverages on other types of engagement, such as collaborative engagement and advocacy, and engage on the other asset classes. More details on Engagement Report.

4. Demonstrating success and impact

As Mirova's teams conduct hundreds of conversations and these dialogues can span a multi-year time period, monitoring impact can prove to be challenging. We also acknowledge that we are among a large swath of investors that are working through engagement to advocate for best practices as well. As a result, investors can only gauge individualized impact with caution.

Engagement monitoring: We systematically document engagement discussions and communications in our in-house engagement platform. We qualitatively monitor the progress delivered over time by companies through quarterly meetings amongst the Sustainability Analysts.

Engagement success measurement: Our engagement program is explicitly designed to articulate specific, measurable, timebound goals that are relevant to each specific company our team has identified and we follow the impact based on those targets.

While it is difficult for a single investor to influence the market, the system cannot ignore a fundamental trend in investor behaviour. We believe that our documented and monitored approach to engagement, consistent with our investment decision, is in line with our seek for impact.

5. Escalation Process

If through one of the aforementioned channels, the discussion with the company has not met the stated expectations, and these progresses would be required to maintain the sustainability opinion, Mirova has implemented a framework for escalation.

At which stage and the level of escalation is a determination made by our sustainability research team and then presented to Mirova's portfolio managers and CIOs. As described above, we firmly believe in engaging in a one-on-one



discussion to exchange views before taking more decisive action. There is no systematic escalation process as we believe that case by case analysis of the issue will enable us to identify the more relevant mean to escalate.

Beyond initiating a one-on-one dialogue, our considered escalation tools include:

- Reinforced direct dialogue by:
 - requesting a meeting with the chairman of the board or top executive,
 - Writing a public letter.
- Ramp-up to Collective Engagement by:
 - Bringing other investors in our dialogue,
 - joining collective initiatives involving the company.
- Leverage the power of our proxy vote by:
 - voting against relevant items and/or members of the board,
 - Take action at a shareholder meeting by submitting a question or suggest a topic for the AGM agenda,
 - Take action at a shareholder meeting by filing a shareholder proposal.
- Ramp-up to Industry-level action by joining sector-led initiatives.
- Downgrade of the sustainability opinion and divestment.

For Targeted Engagement programs that are tied to a Severe Controversy, Mirova has set a specific monitoring process:

- The targeted engagement program is expected to deliver progress within 18 months and includes intermediate goals monitored every 6 months maximum.
- An ad hoc committee (composed of Mirova's Head of Sustainability Research, Head of Sustainability Research – Listed Assets, concerned Chief Investment Officers, Chief Risk Officer and Chief Compliance Officer) oversees progress of the case and suitability of escalation actions.

Should the company's progress be found insufficient, divestment may be considered at any point of the escalation process.

6. Stewardship and Sustainability Governance

At Mirova, we have several lines of oversight with respect to our stewardship & sustainability activities.

- Executive Committee- comprised of top management and maintains oversight of the setting and reviewing of the firm's sustainability strategy.
- Mission Committee– as a mission-driven company⁸, Mirova has established a Mission Committee which is comprised of six external

⁸ Introduced in France in 2018 under the Pacte Law, a 'société à mission' company must define its "raison d'être" and one or more social, societal or environmental objectives beyond profit. The purpose, and objectives aligned with this purpose, must be set out in its Articles of Association. The Articles specify the means by which the execution of the Mission will be monitored by a Mission Committee (a corporate body distinct from the board of directors which is responsible for monitoring the implementation of the mission with at least one employee.) An independent third party then verifies the execution of the Mission, via a written opinion which is annexed to the report



members, two internally elected employee representatives and Natixis Investment Management's Chief Administration Officer. Our Mission Committee meets at least bi-annually, and ad hoc as necessary to review how Mirova is fulfilling our objectives as a mission driven company.

- Compliance and Risk Investment Committee— comprised of representatives from Natixis Investment Management and Mirova. Among other topics, the committee reviews regulatory developments globally and Mirova's compliance with such.
- Internal Risk and Compliance- solely internal representatives that regularly review topics, but not limited to, business development, operations, ESG research and strategy.
- Proxy Voting Committee- is composed of Mirova's CIOs, its Head of Sustainability Research, and its Head of Sustainability Research Listed Asset. Portfolio managers and extra-financial analysts may be invited to participate in the committee's deliberations depending on the subject under discussion.

of the Mission Committee to shareholders and made available on the website of the company for a period of five years.

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Mirova voting and engagement policy as well as transparency code are available on its website : www.mirova.com

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