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Aligning ESG Investments and Trends with Participant Values

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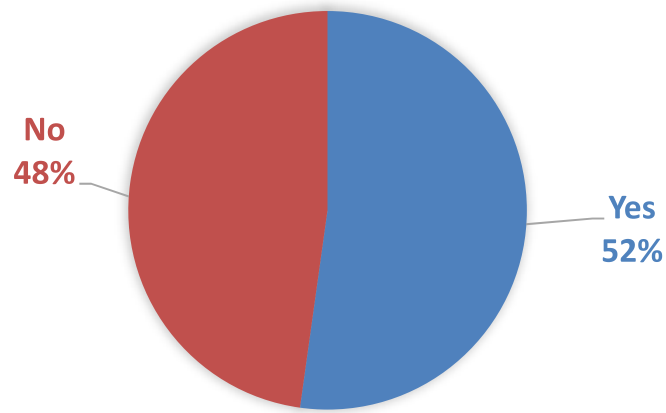
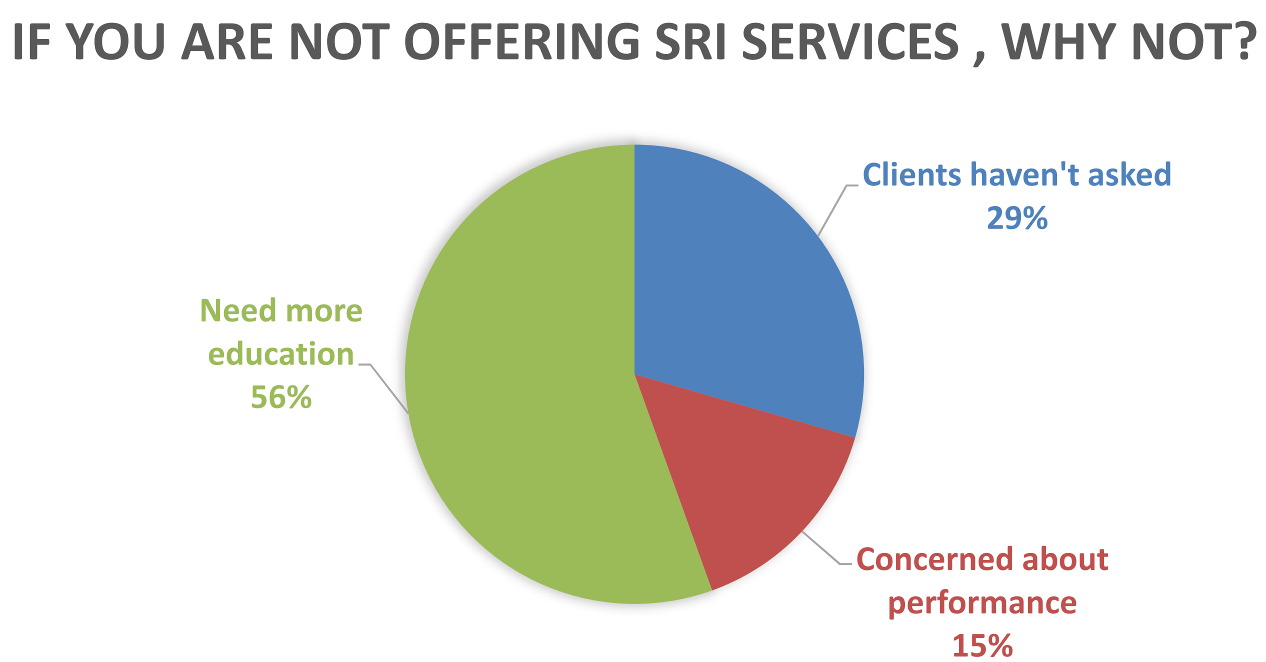
Poll Question #1

ARE YOU CURRENTLY OFFERING ESG INVESTING SOLUTIONS TO YOUR CLIENTS?



Poll Question #2



Fiduciary considerations for ESG Investing

- The problem of mixed signals from the Department of Labor
- Fiduciary duties and three key questions for proper decision-making
  - Duty of loyalty – Is it in the investors' best interests?
  - Duty of care – Is it prudent?
  - Duty of obedience – Is there a lawful client directive to apply ESG factors?

The problem of mixed signals from DOL

- Interpretive Bulletin 94-1 "**to correct a popular misperception** … that investments in ETIs [Economically Targeted Investments, including ESG investing] are incompatible with ERISA's fiduciary obligations"
- IB 2008-01 replaced IB 94-1 "**to clarify** that fiduciary considerations of collateral, non-economic factors in selecting plan investments should be rare"
- IB 2015-01 replaced IB 2008-01 **out of concern** that "the 2008 guidance may be dissuading fiduciaries from … pursuing investment strategies that consider [ESG] factors, even where they are used solely to evaluate economic benefits and identify economically superior investments"
- IB 2018-01 **to clarify** that "Fiduciaries must not too readily treat ESG factors as economically relevant to the particular investment choices when making a decision."

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"Whether a particular fund or investment alternative satisfies [ERISA] requirements … is an inherently factual question that the appropriate plan fiduciary must decide …"

"The fiduciary standards applicable to [ESG investing] are no different than the standards applicable to plan investments generally."

Source: IB 2015-01

Duty of Loyalty – Best Interest

- Act solely in the interest of, and for the exclusive purpose of providing benefits to, participants and beneficiaries of ERISA retirement plans
- Institutions not subject to ERISA, such as foundations and endowments, may have permissible non-economic goals and objectives to consider
- Wealth/retail clients may also have non-economic goals to consider; “best interest” may involve weighing economic and non-economic benefits
- Regulatory obligations vary by client type and must be evaluated

Duty of Care – Prudence

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- Exercise the care, skill, prudence and diligence of a prudent expert
- Incur only reasonable expenses
- For plans governed by ERISA, focus due diligence on factors that have a material effect on risk and return, given time horizon, goals and objectives of the investors
- For institutional portfolios not governed by ERISA and for individual investors, apply appropriate and lawful non-economic due diligence limitations or criteria

Duty of Obedience – Directives

- Follow the client’s reasonable and lawful instructions
- Comply with governing documents
- Comply with an IPS, but only insofar as the policy is consistent with the law, including fiduciary obligations

ESG Investing Solutions for Retirement Plan Sponsors

Aligning Investments with Participant Values in Defined Contribution Plans

FOR FINANCIAL PROFESSIONALS ONLY

Responsible Investing

- **Introduction**
- **What is ESG?**
- **Why ESG?**
- **How to implement ESG**

What is ESG?

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What is ESG?

Environmental	Social	Governance
How a company uses and impacts the natural environment including through its supply chain	How a company manages relationships with its employees, suppliers, customers and the communities where it operates	Policies and practices related to a company's leadership, executive pay, and shareholder rights

Mirova and eight global megatrends

Current long-term trends that Mirova believes may reshape the world over the next decade

Population growth	Urbanization	Growing middle class in the emerging markets	Aging population	Technology breakthroughs	Depletion of natural resources	Climate change	Evolution of global financial systems
9.6 billion estimated world population in 2050	**70%** of the world population will live in cities in 2050	**3 billion** new active consumers by 2030	**8%** of the world population is 65 or older	**15%** CO_2 emissions could be reduced by 2020	**32 million** acres of land are destroyed every year	**+2 to +6°C** temperature increase by the end of the century	**$56 trillion** estimated public debt in 2016

Who do we think can benefit from these trends?

- Companies offering solutions to issues to these trends
- Companies with positive exposure to these trends

Data source: Mirova estimates based on public data.

Why ESG?

Investor demand

Over the past several years there has been growing interest in investments that align with investors' values:

81% of investors would like their investments to reflect their personal values

71% believe it's important to make a positive impact through their investments

84% believe it's important to be invested in companies that are ethically run

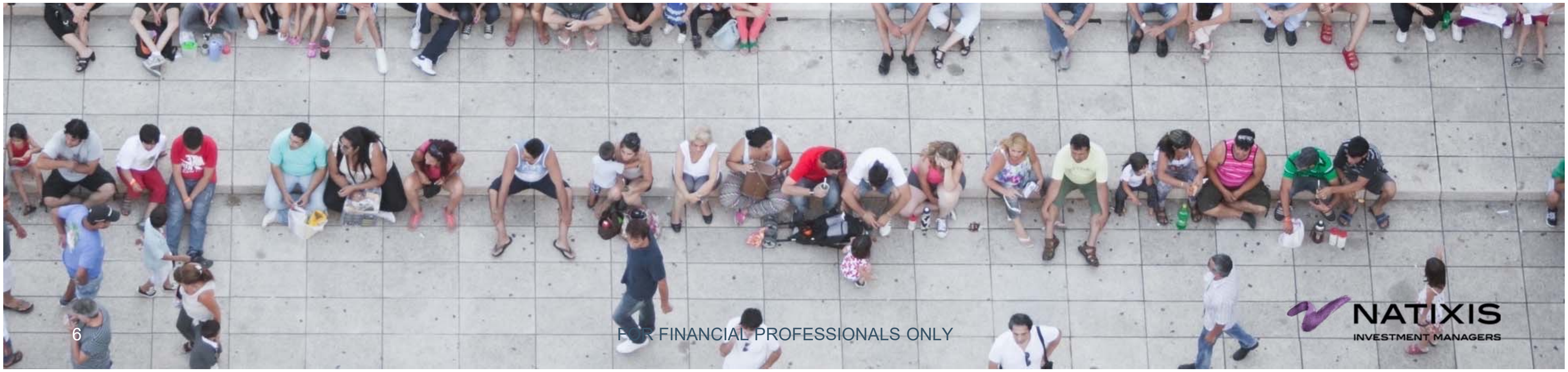
66% of investors believe they have to sacrifice return potential to have investments match their personal beliefs

Source: Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research, February-March 2017. Survey included 8,300 investors including 750 from the US.

The Millennial Myth

Millennials are not who you think they are…

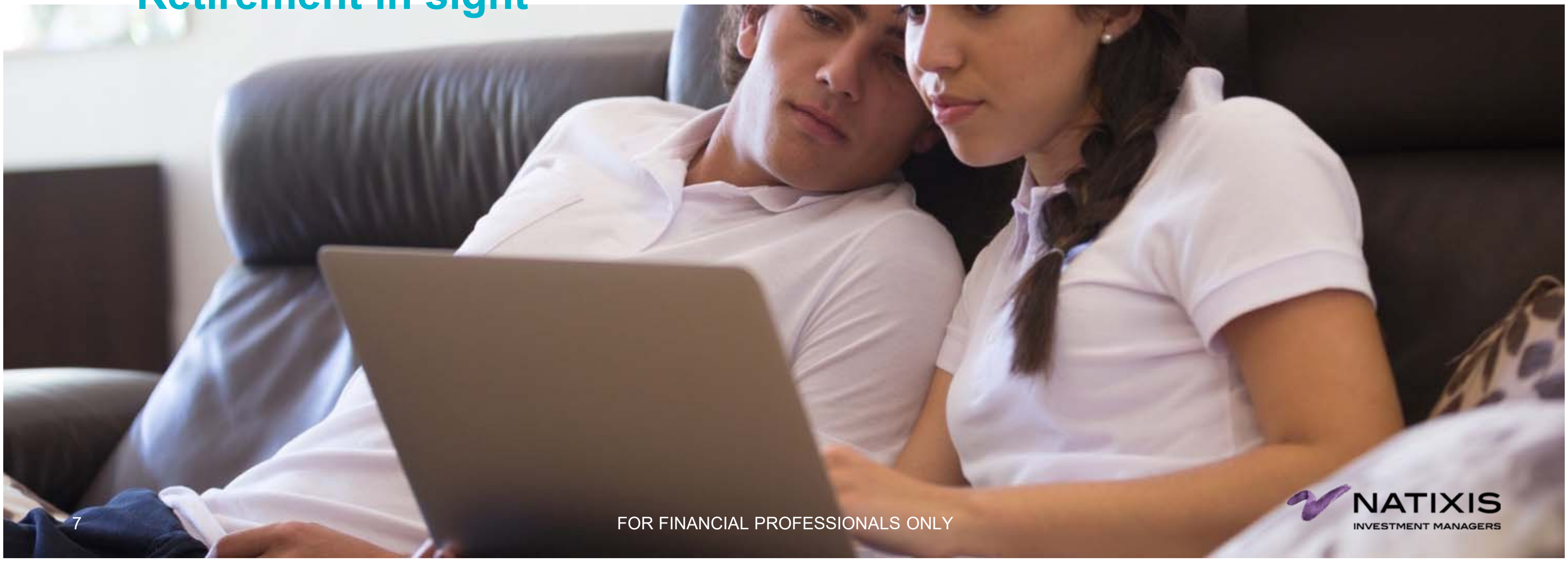
- **Characterized as self-obsessed**
- **Dismissed as trivial**
- **Assumed not to be interested in building wealth**



The Millennial Myth

Millennials are a powerful adult economic force

- By 2025, 75% of the workforce will be Millennials
- Believe investments can help produce social good
- Goals-focused
- Risk-conscious
- Retirement in sight



Millennial influencers

Among the 223 US Millennials surveyed with $100,00 or more in investable assets, we find distinct patterns or beliefs and behaviors that could make or break their success

31
Average age

44%
Female

56%
Male

57% married

25% single

14% living with partner

3% separated/divorced

1% widowed

Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research, February-March 2017.
Survey included 8,300 investors from 26 countries, including 223 US Millennials

Who do they trust when making investment decisions?

My financial advisor

87%

Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research, February-March 2017.
Survey included 8,300 investors from 26 countries, including 223 US Millennials

Values and convictions run deep

76%

It is important to know my investments are doing social good

78%

There are companies I don't want to own because they violate my principles

77%

If a company had negative ethical or environmental issues I would sell the stock

Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research, February-March 2017. Survey included 8,300 investors from 26 countries, including 223 US Millennials

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Integrating ESG may also mitigate certain risks

- **Environmental risk**
- **Social risk**
- **Governance risk**
- **Sustainability risk**

Poor ESG practices and not participating in sustainable development can lead to:

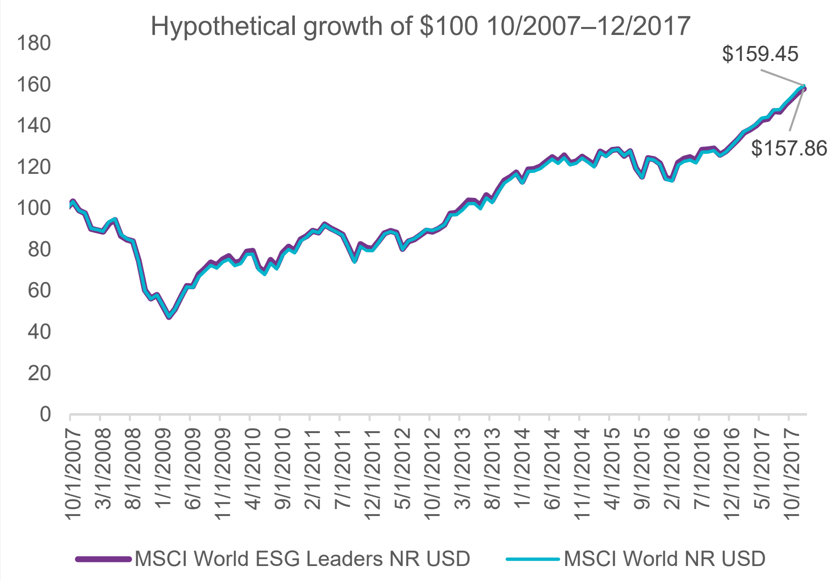
- Reputational and headline risk
- Litigation risk (external and internal)
- Industry fines
- Regulatory risk
- Loss of competitive advantage
- Bankruptcy

Avoidance of these risks and participation in sustainable development may lead to better investment performance

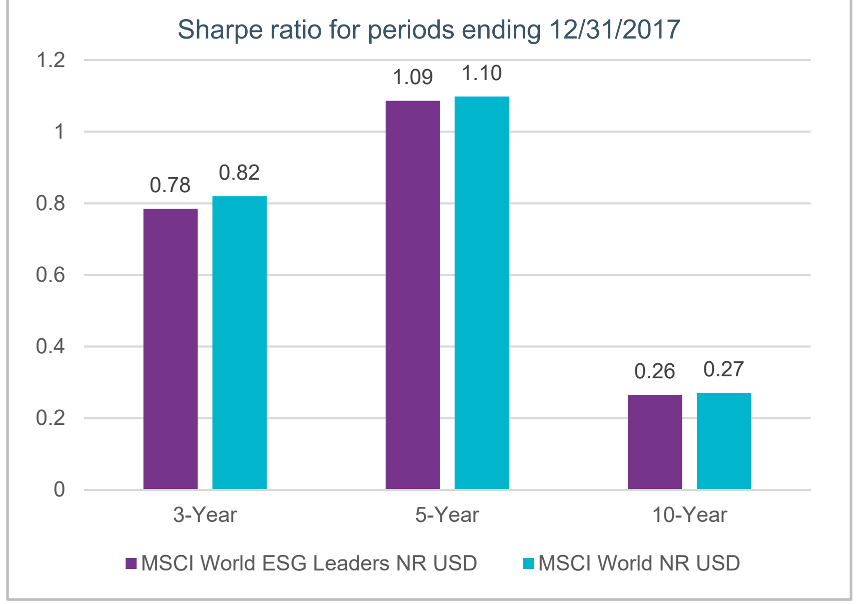
No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

Is there a performance tradeoff?

ESG-focused equity index has kept pace with the broad market



Risk-adjusted returns are also comparable across multiple timeframes



Source: MPI Stylus/Morningstar (10/1/2007–12/31/2017)

The MSCI World ESG Leaders Index (Net) is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI World ESG Leaders Index is constructed by aggregating the following regional indices: MSCI Pacific ESG Leaders Index, MSCI Europe & Middle East ESG Leaders Index, MSCI Canada ESG Leaders Index and MSCI USA ESG Leaders Index. The parent index is MSCI World Index, which consists of large and mid-cap companies in multiple Developed Market Countries. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market. The index is a member of the MSCI ESG Leaders Index series. Constituent selection is based on data from MSCI ESG Research.

The MSCI World Index (Net) is an unmanaged index that is designed to measure the equity market performance of developed markets. It is composed of common stocks of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific Region. The index is calculated without dividends, with net or with gross dividends reinvested, in both U.S. dollars and local currencies.

Past performance is no guarantee of, and not necessarily indicative of, future results.

For Illustrative Purposes Only. Not indicative of an investible product or strategy.

Sharpe Ratio: A measure of risk-adjusted return, calculated by dividing an investment's excess return over a riskless asset (such as the 3-Month T-Bill) by its standard deviation of returns. The higher the Sharpe ratio, the better the historical risk-adjusted performance.

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How to use ESG

Implementing ESG in Defined Contribution Plans

Sustainable Investing Options to Meet Participant Demand

Fewer participants: single strategy ⟷ **More participants: multi-strategy**

Fixed Income	Equity	Diversified Sleeve	QDIA
• Mirova Global • Green Bond	• Mirova Global Sustainable Equity • Customized Index-Based Portfolio from Active Index Advisors	Select 2–4 vintages of Natixis Sustainable Future Funds which align with plan demand and demographics	Natixis Sustainable Future Funds

Target Date Trends

- Target Date Funds have **$1.73 Trillion** in AUM (as of 12/31/2017)*

- 24% Average Annual increase since 2015*

- **By 2021,** target date strategies are predicted to capture **85% of participant contributions****

- *Brown, Chris. Sway Research, LLC (2018) *The State of the Target-Date Market: 2018.* https://static1.squarespace.com/static/5661aba4e4b0c3b0ea70a07a/t/5a9d6b6671c10bf48199a027/1520266093276/Sway_State_of_Target-Date_2018_Brochure.pdf
- ** Kilroy, Meaghan (February 5, 2018) *Target-Date assets continue to climb,* http://www.pionline.com/article/20180205/PRINT/180209963/target-date-assets-continue-to-climb

Summary

- ESG factors are economic factors.
- They help our managers identify themes and risks.
- Sustainable investing helps identify companies that can grow, thrive and shape the world of 10, 15, 20 years from now.
- ESG helps to identify intangibles.
- In short, the investment framework inherent in ESG is aligned with the interests of long-term retirement investors.

Visit www.im.Natixis.com/ESGTargetDateFunds

Opinions on DOL, participant research and communication strategies

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Disclosure

The Funds are designed for investors who will be age 65 around the year indicated in each Fund's name. When choosing a Fund, investors who anticipate retiring significantly earlier or later than age 65 may want to select a Fund closer to their anticipated retirement year. Besides age, there may be other considerations relevant to fund selection, including personal circumstances, risk tolerance and specific investment goals.

Each Fund's asset allocation strategy becomes increasingly conservative as it approaches the target date and beyond. Allocations may deviate plus or minus 10% from their targeted percentages.

Investments in the Funds are subject to the risks of the underlying funds and separately managed segments. Principal invested is not guaranteed against losses. It is possible to lose money by investing in the Funds, including at and after the Fund's target date.

Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

Fixed-income securities may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity.

Sustainable investing focuses on investments in companies that relate to certain sustainable development themes and demonstrate adherence to environmental, social and governance (ESG) practices, therefore each Fund's universe of investments may be reduced. It may sell a security when it could be disadvantageous to do so or forgo opportunities in certain companies, industries, sectors or countries. This could have a negative impact on performance depending on whether such investments are in or out of favor.

Foreign and emerging market securities may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets.

Mortgage-related and asset-backed securities are subject to the risks of the mortgages and assets underlying the securities.
Other related risks include prepayment risk, which is the risk that the securities may be prepaid, potentially resulting in the reinvestment of the prepaid amounts into securities with lower yields.

Inflation protected securities move with the rate of inflation and carry the risk that in deflationary conditions (when inflation is negative) the value of the bond may decrease.

Multi-manager funds may be managed by several sub-advisers using different styles which may not always complement each other. This could adversely affect performance and may lead to higher fund expenses.

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Q & A

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