Third Generation of ESG Investing Offers More Opportunity

Pursuit of performance, risk avoidance, sustainability are now part of ESG investing

Environmental, Social and Governance (ESG) investing has come a long way since it was introduced some thirty years ago as Socially Responsible Investing (SRI). It was a way to exclude securities from portfolios for moral, ethical or faith-based reasons. Today, it's more about investing in companies that meet environmental, social, and governance criteria – having the potential to positively impact society and provide competitive returns.

Demand for ESG-driven investment strategies appears to be growing, as well. In fact, 78% of respondents in Natixis' 2016 Global Survey of Individual Investors[1] said it is important to them to invest in companies that are ethically run. And 75% believe it's important that their investments reflect personal values.

NOW AND THEN COMPARISON OF ESG INVESTING

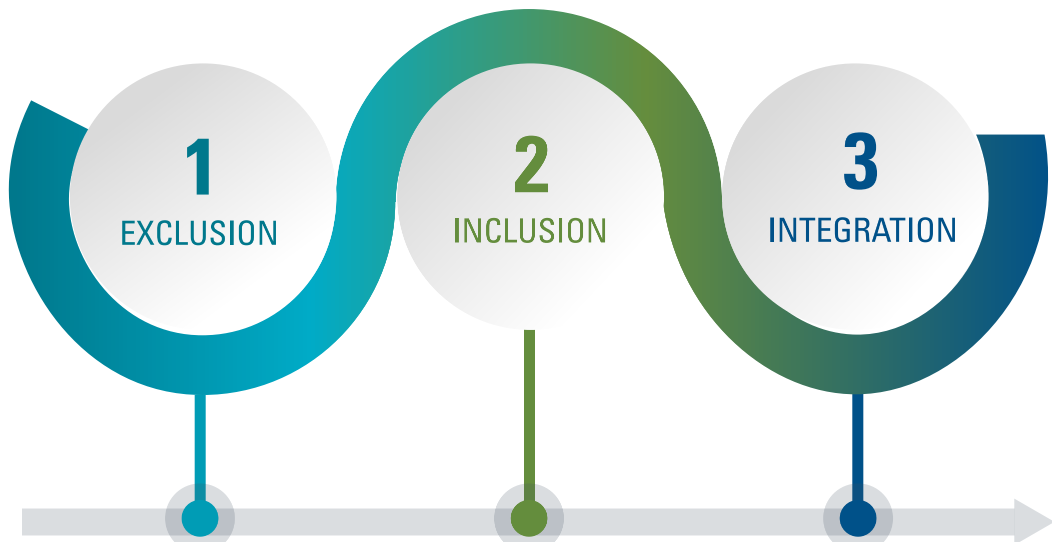
	ESG today	Traditional SRI
Negative screening		X
Positive screening	X	
Ethically focused	X	X
Risk management	X	
Sustainable value focus	X	

For illustrative purposes only.

Of course, investors should keep in mind that ESG investing involves risk, including risk of loss. Because of an ESG focus, a strategy's universe of investments may be reduced. A security may be sold when it's disadvantageous to do so and opportunities may be missed 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.

A MOVEMENT TOWARDS SUSTAINABILITY

Three major waves of ESG investing have taken shape through the years. The latest one integrates security selection and risk management to focus on sustainable value.



Negative screening

The earliest type of ESG investing, known as SRI, relies primarily on negative screening to exclude controversial industries, products, or countries based on moral or faith-related values – such as alcohol, tobacco and human rights offenders. While negative screening can help avoid specific ESG risks, it may exclude large sectors of the investable universe and miss out on opportunities.

Best-in-class

Next, a best-in-class investment approach was introduced. It is an inclusionary-based approach focused on investing in companies that are considered leaders in meeting environmental, social and governance criteria in their particular universe, asset class or category. This approach tends to look at optimizing the profile of a portfolio, but not necessarily optimizing performance.

Thematic investing

More recently, a research-driven, thematic investing approach has been introduced. This inclusion-based style is performance oriented, investing in solutions for the world's most important sustainability challenges, such as climate change. Also called sustainable investing, this style enables portfolio managers to integrate ESG criteria at all stages of the investment process, from security selection to portfolio construction and risk management.

1 Natixis Global Asset Management, 2016 Global Survey of Individual Investors conducted by CoreData Research in February-March 2016. Survey included 8,300 investors from 26 countries, of which 750 were in the United States.

Advantages of ESG investing today

ESG investing has significantly evolved into an investment and risk management approach in recent years, enabling investors to reflect environmental, social and governance considerations while also pursuing returns. Here are three ways some ESG strategies may now help long-term investors seek to build better portfolios:

- **Uncover opportunities** – Companies offering sustainable solutions for a better future in areas like reduced dependence on fossil fuels or development of more energy-efficient building materials may have attractive growth prospects.
- **Manage risks** – Through ESG research, companies that may pose liability, regulatory, environmental and reputational risks can potentially be avoided. A company with strict product quality standards, for instance, may be less likely to end up in court.
- **Returns with impact** – Investments focused on positive impact on the real economy, such as job creation or solving for lower carbon emissions, have the potential to provide long-term growth

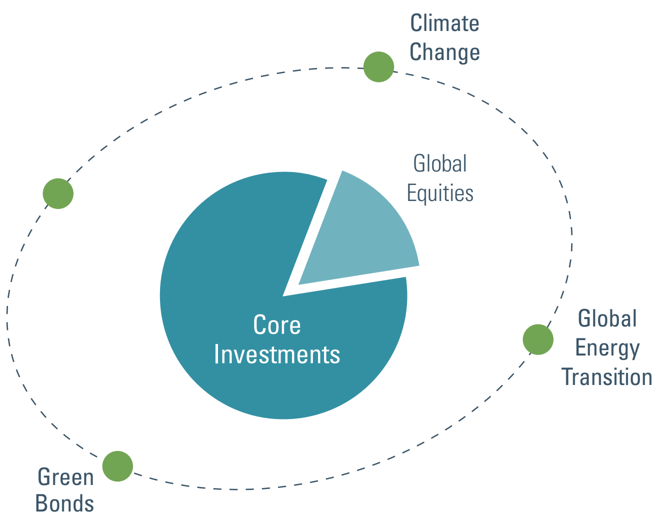
New roles of ESG in portfolios

Today, there are many ESG-focused strategies to consider, all with varying uses in portfolio construction. For example, some sustainable equity strategies are now used as core investments in overall portfolios. These diversified strategies may provide long-term investors a way to pursue investment performance and risk management while helping to make a positive environmental and social impact in the world.

Specialized ESG investment strategies that may work as satellite holdings for an overall portfolio are now available, as well. Examples include single-thematic equity strategies focused on global energy transition to a low carbon economy or climate change.

For fixed income, investing in green bonds is an option. Green bonds are issued by corporations, multinational development banks, and governments to finance projects that provide environmental benefits. In addition to the risks that come with ESG investing, green bonds could also carry credit, interest rate, inflation, and/or liquidity risk.

CORE & SATELLITE APPLICATIONS[2]



2 For informational purposes only. This does not constitute investment advice and should not be construed as a recommendation for investment action.

MORE MEANINGFUL INVESTMENT EXPERIENCES

Investors shared their preference for strategies focused on environmental, social and governance issues in the Natixis Global Survey of Individual Investors[1]

- Nearly eight in ten said it's important to invest in ethically run firms.
- Seven in ten said it's important to know that their investment does social good and the companies they are investing in have a positive social impact.
- Only 61% have spoken to their financial advisor about ESG investing.

For more insight on ESG and sustainable investing, talk to your financial advisor.
Visit: ngam.natixis.com/ESG

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