

2020 ESG Spotlight:

## **Elevating and Evolving our Approach to Sustainability**

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# **Our Principled Approach to ESG in Investing**



At Loomis Sayles, our goal is to deliver superior, long-term, risk-adjusted returns and effective investment solutions to meet our fiduciary duty to our clients. We believe that environmental, social and governance (ESG) issues play an important role in this goal, as well as the broader global economy, financial markets and society at large. As such, ESG considerations are an inherent part of the firm's investment culture.

Loomis Sayles' culture is well-known for its independent, exploratory spirit and deep proprietary research. Our investment teams have the freedom to pursue alpha in their own distinct ways. We approach ESG no differently. It is why we made the strategic decision not to establish a centralized ESG team and instead embed ESG expertise throughout the firm, to empower our research and investment teams to pursue ESG integration in their own way. We believe this structure effectively promotes authentic integration and consideration of material ESG issues throughout the firm.

Our experienced investment professionals strive to develop a thorough understanding of the risks and opportunities relevant to their asset class and investment strategy. These include factors associated with management strength and strategy, governance, use of human and natural resources, and regulatory and political risks of companies, sovereign and municipal bond, or structured securities issuers. These factors are critical to evaluating the long-term sustainability of companies and issuers and, ultimately, its expected contribution to client portfolios. ESG considerations are an inextricable part of that analysis.



## Elevating and Evolving Our Approach

At Loomis Sayles, we are continually advancing and refining our commitment to ESG, through engagement with the companies and issuers our teams invest in, collaboration with the industry at large, and our use of technology.

In 2020, we focused on deepening the firm's internal climate-related expertise through education, data integration and partnership with external climate experts. The goal of this effort was to ensure that our investment teams have access to the best available resources and tools for integrating relevant climate-related data into their investment analysis and decision-making processes.

As part of this effort, the firm's ESG Working Committee worked with our investment professionals to complete the following initiatives:

- Developed internal fixed income ESG materiality maps that incorporate climate change considerations
- Created fixed income credit and sovereign ESG scores for issuers under research coverage based on the materiality framework and integrated the scores into our proprietary fixed income valuation tool
- Created a library of ESG incorporation and engagement examples from across our research and investment teams that illustrate how our investment professionals are incorporating ESG into our diverse strategies and focal topics

*"At Loomis Sayles, we firmly believe that climate change is one of the most important global issues of our time. We are happy to see that governments, businesses and civilians around the world are mobilizing to change course and address climate change. This response has impacted, and will continue to impact, global financial markets.*

*We understand that our clients are looking to us and their other asset managers for perspectives on this issue as they address climate change in the context of their own investment policies. While at Loomis Sayles each of our investment teams have unique philosophies and investment processes, we have developed a set of shared principles that will guide the investment approach taken toward climate change going forward. While the investment implications from climate change are moving rapidly, we look forward to continuing to work with our clients on this important issue."*

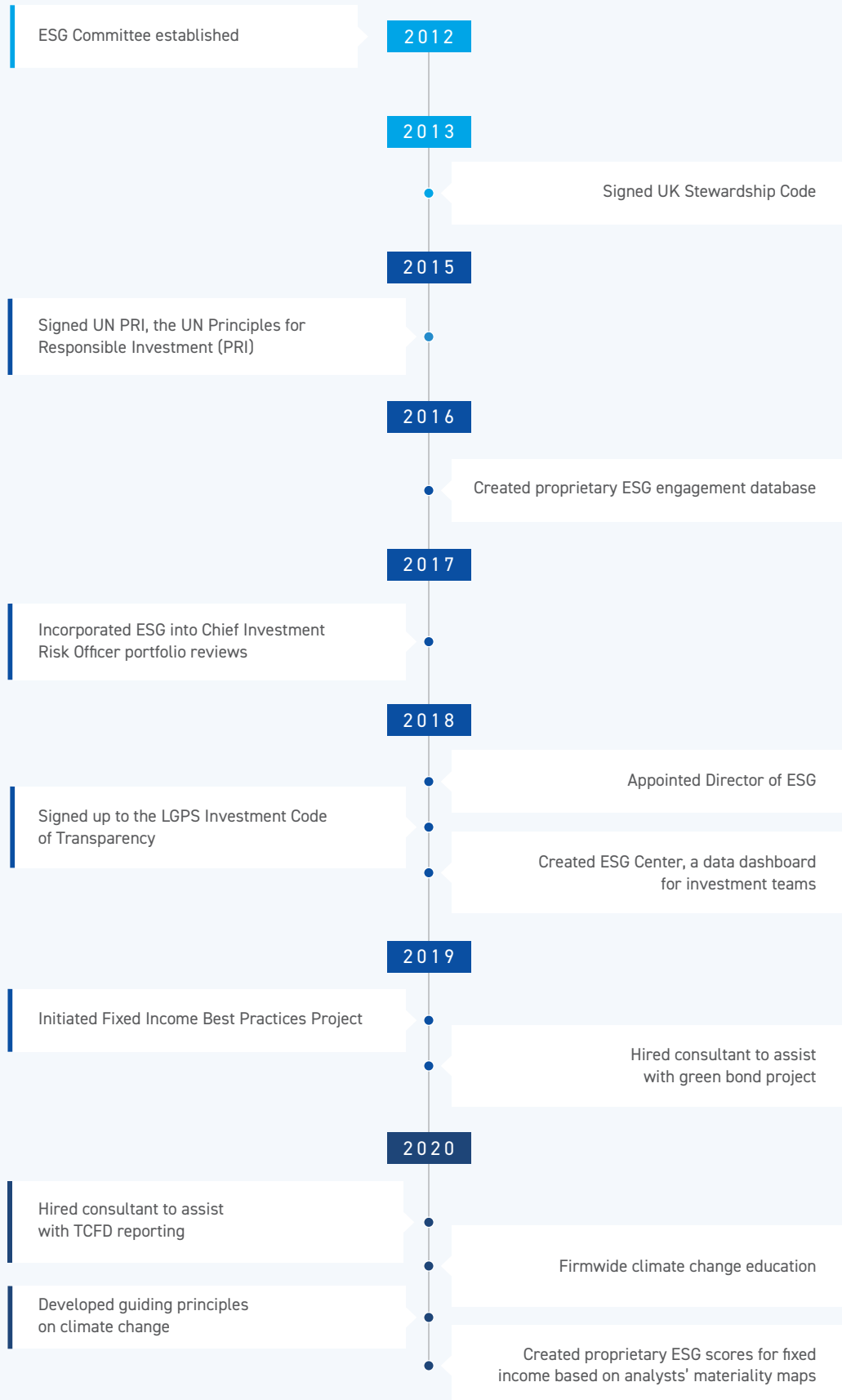
*- Kevin Charleston, Chairman & CEO*

At Loomis Sayles, we share insights on important ESG topics. We published three ESG-focused white papers in 2020, each of which is available on our website:

- Beyond the Label: An Assessment of the Green Bond Market
- Update on Energy Stranded Assets
- Stranded Assets: Assessing the Impact on US and European Utilities



## Recent ESG Initiatives at Loomis Sayles



# ESG Structure and Oversight

Loomis Sayles' ESG focus extends to the highest level of the firm and is embedded throughout the organization, led by the Director of ESG and the ESG Working Committee. Senior management

sets the tone at the top by articulating the firm's strategy and values, and by maintaining a culture of stewardship, accountability, transparency and compliance.

ESG at Loomis Sayles involves several boards and committees that work together to ensure the firm’s initiatives are on track and communicated appropriately.



In our view, exercising proper oversight and adhering to the highest standard of conduct are the underpinnings of good governance. ESG and climate

issues are a core focus of the firm’s risk management approach and investment risk review process, and contribute to our fiduciary duty to clients.



# **Authentic ESG Integration in Practice**



Loomis Sayles is committed to continually advancing our approach to ESG and integrating ESG considerations into the work we do every day. We collaborate with our clients to meet their investment needs, including the unique ESG guidelines or values they may have. These discussions help give perspective to and focus our internal efforts to build expertise in key sustainability areas and develop custom tools and client solutions.

## A. Within the Firm

### **ESG Analysis is Fundamental to Our Deep Proprietary Research**

As we mentioned at the beginning of this report, our goal is to deliver superior, long-term, risk-adjusted returns and effective investment solutions to meet our fiduciary duty to our clients. ESG considerations contribute to this goal and are important to the firm's culture, the global economy, financial markets and society at large. ESG considerations are inherently part of our investment decision making, as Loomis Sayles generally takes a long-term view in seeking value.

We do not subscribe to a single investment process. Each investment team considers ESG integration according to its investment philosophy. ESG factors can be critical to evaluating the sustainability of a company or issuer and the expected impact on investment performance. Loomis Sayles' investment teams determine the materiality of these factors in investment decisions. We only screen specific sectors, issuers or themes where client or regulatory restrictions apply.

Loomis Sayles strives to equip its investment and

research teams with the best ESG tools, data, training and other resources possible to enhance integration and engagement efforts. We continue to raise awareness and educate our research and investment teams about key ESG topics. We engage experts to bring new perspectives and deepen our efforts in focus areas. These experts also work with our teams to share innovative ideas and approaches to ESG integration and research.

### **ESG in Practice: A Look at Our Fixed Income Best Practices Project**

The objective of the Best Practices Project was to work across the fixed income groups and associated departments—research, portfolio management, risk management, technology, trading and marketing—to enhance the processes and communication of our ESG integration and engagement efforts. As a result of this project, we identified efficient and effective ways to communicate and track the material ESG factors within our current fundamental fixed income research processes. The lessons learned from this project led to the creation of custom proprietary corporate bond industry and sovereign materiality maps with associated internal fixed income ESG scores, which have been incorporated into our systems.

### **ESG and Climate Change Training and Education**

Loomis Sayles conducts training to increase awareness and dialogue on key ESG topics among our investment professionals. As a firm, we chose to focus on climate change and ESG data in 2020. This training and education included carbon



emissions reporting for portfolios and available assessment tools and resources such as the SASB materiality maps.

### Sharing Insights

We provide insights on subjects that we believe are important to our clients and investment professionals. In 2020, we focused on developing digital and written materials to supplement our internal training and research efforts, including a primer about carbon emissions footprinting and a white paper sharing our assessment of the green bond market. We also initiated a series of industry-specific white papers focused on stranded assets in fixed income, authored by our credit research analysts.

## B. Engagement with Companies and Issuers

At Loomis Sayles, ESG considerations contribute to our fiduciary duty to our clients. As such, engagement is an integral part of our fundamental analysis across all asset classes; our philosophy is to engage rather than divest. Short-termism, so prevalent in today's markets, can be detrimental to sustainability and value creation. Direct engagement helps our equity and fixed income investment professionals assess the quality and sustainability of a company's management, strategy, and operations. Our equity teams with low-turnover strategies develop long-term constructive relationships with management teams. Our credit analysts have ongoing engagements with company management on issues of materiality. Our sovereign investment professionals also engage with policy makers

and regulators.

Exercising our proxy voting responsibility is an important component of ESG engagement for our equity strategies. Our equity investment teams vote in ways that they believe serve the best interests of long-term shareholder value creation. Our proxy voting guidelines steer this process.

## C. Interacting with Peers, Affiliates and the Industry

At the firm level, Loomis Sayles seeks to collaborate with various investor and industry groups to foster best investment management practices. We monitor the evolving responsible investment initiatives and ESG principles moving the asset management industry forward.

### ESG in Practice: Loomis Sayles in Collaboration with the Association of Institutional Investors

Loomis Sayles, working through its Chief Operating Officer in his capacity as President of the Association of Institutional Investors, helped lead a coalition that developed a comprehensive ESG/SRI-related RFP, RFI, DDQ and 15(c) questionnaire, called GOODquestions. The coalition consisted of more than 50 institutional investment managers, industry utilities, index providers, stock exchanges and others. GOODquestions has since been adopted by more than 80,000 investment plan sponsors and pension consultants.

The Association of Institutional Investors is



now leading another coalition to develop a comprehensive factors-based financial benchmarking framework, GOODbenchmarks, in conjunction with the world's leading standards boards, index providers, market utilities, and stock exchanges.

### Principles for Responsible Investment

Loomis Sayles has been a Signatory to the Principles for Responsible Investment (PRI) since 2015. We believe the PRI provides a robust framework for monitoring the integration of ESG into our investment processes, with the ultimate goal of meeting our clients' investment objectives. We encourage peer asset managers and financial organizations to join the PRI and share our experience with others to illuminate the PRI's value, process and expectations.

### Commitment to Responsible Investment Initiatives and ESG Principles

- We are a Tier 1 signatory of the UK Stewardship Code.
- We have adopted the UK LGPS (Local Government Pension Schemes) Code of Transparency.
- In 2020, we publicly endorsed the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

## D. With Technology

Our ESG technology mission is to source and provide state-of-the-art data and tools for our research

analysts and investment teams. We evaluate ESG resources on an ongoing basis, focusing on providing value to our investment teams' fundamental analysis and the opportunity to develop customized solutions through data and technological innovation.

### ESG Center

We have developed an internal technology portal, the ESG Center, as a central location for external and internal ESG data, internal fixed income ESG scores and climate footprint analysis. Our portfolio managers use the ESG Center to assess ESG metrics within their portfolios and relative to their respective benchmarks.



Artificial Intelligence Research Tools



Consulting Firms



Credit Rating Agencies



ESG Data, Research & Ratings



Global Frameworks



Sell-side Research

# 2020 Focus: Climate Change



Loomis Sayles identified climate change as a key focus area for the firm. We engaged an external climate expert to assess our current practices and recommend next steps for TCFD implementation, help us provide climate training across the organization, and advise on general climate-related matters.

Additionally, we worked to further develop expertise among our investment professionals through training, the acquisition of new resources and tools, engaging experts, and partnering with NGOs and peers. We focused on ensuring our investment professionals have the information needed to analyze the impact of material climate-related risks (both physical and transition risks) in their investment processes.

We took the following steps to formalize the firm's commitment to addressing climate change:

- Created guiding principles on climate change
- Partnered with an external climate-focused consultant to carry out climate training for investment professionals and provide a roadmap for TCFD implementation
- Established a Climate Change Subcommittee under the ESG Working Committee
- Assigned responsibilities for climate change to the Director of ESG, the ESG Working Committee and the ESG Advisory Board
- Incorporated climate change into the agenda for the quarterly Risk Management Committee

- Incorporated climate and carbon footprint data and other ESG metrics into the Chief Investment Risk Officer's semi-annual investment team reviews

## Our Climate Change Principles

Each of Loomis Sayles' investment teams has unique philosophies and investment processes. Nonetheless, we have developed a set of shared principles to guide the firm's overall investment approach toward climate change.

**We agree with the overwhelming scientific data that human activity is contributing to climate change, and we see the need for bold action on a global scale.** Governments, corporations and individuals must respond to this growing threat. The need to meet the real and serious challenge inherent in climate change presents critical risks and investment opportunities across all asset classes. At this point in history, we anticipate a time of sweeping change.

**Material climate change considerations are inherently part of our investment decision-making.** Each investment team considers climate change integration according to its investment philosophy. To support our investment teams, we are committed to providing education on a growing set of climate data and transition scenario analysis tools.

**Direct engagement is an integral part of our fundamental analysis across all asset classes.** As a fiduciary and a steward of our clients' capital, we are unequivocally focused on all investment

risks and opportunities, including climate. This means that we must regularly engage with companies and issuers to assess their climate impact, policies and risks.

## Exploring Climate-Related Transition Scenario Analysis

Loomis Sayles' investment teams have been learning more about incorporating ESG data as part of scenario analysis, particularly related to climate transition risks. We have begun to conduct scenario analysis using the Paris Agreement Capital Transition Assessment (PACTA) tool and the ISS climate report. These tools help us to conduct more in-depth climate-related scenario analysis, in line with the TCFD recommendations.

Loomis Sayles' scenario work to date has been client-driven, leveraging the International Energy Agency's suite of warming and policy-based scenarios.

Focus Areas:



**Changing Demographics**



**Climate Change**



**Resource Scarcity**



**Technological Developments**



## Collaboration on Climate

Loomis Sayles' Director of ESG collaborated with the Head of ESG at our parent company, Natixis, to create a Climate Change Working Group, which holds monthly conference calls to share knowledge and best practices related to climate change.

We held a variety of topical presentations in 2020. Some of the presentations this year included:

- I4CE (Institute for Climate Economics): Climate-Related Risks and the Financial Sector
- Natixis Investment Managers: A European Regulatory Perspective
- Mantle314: The Role of Climate risk in Economics and Business
- IIGC (The Institutional Investors Group on Climate Change): Educational discussion about the organization's mission to mobilize capital for the low-carbon transition

## Portfolio Carbon Footprinting

Through our internal ESG Center, we are able to measure and monitor the carbon footprint of our portfolios and compare them to their associated benchmarks. We are exploring additional external tools and climate change data to incorporate into our footprinting capabilities.



## Next Steps



Loomis Sayles plans to further pursue its climate change efforts in 2021 and beyond. One current focus is the integration of climate-related scenario analysis tools into our investment team processes. We also plan to continue to further develop our TCFD disclosures. Other focus areas include:

- Further integrating clients' evolving ESG priorities and disclosure expectations into our reporting practices and portfolio management tools
- Continuing to expand and deepen the scope of our ESG tools to cover new sectors, capabilities and themes
- With this inaugural Sustainability Spotlight and our annual PRI reporting and assessment as a foundation, we are eager to publish Loomis Sayles' first full Sustainability Report in 2021, in line with the TCFD recommendations

# Contact Information



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