

Thematic Screening

Thematics Asset Management

Scope: Global [100% of assets under management]

Last policy update: June 2023



Thematic screening – core to our value proposition

Thematics AM is a pure-play thematic equity asset manager. We invest in listed assets whose solutions are addressing targeted themes, that are, in our convictions, represent key areas of the future where transformation is currently converging and taking place. These transformations, by nature, are aimed at building capabilities in growth areas through new and innovative technologies that improve or eliminate the inefficiencies, minimizing resource dependencies, and improving the overall quality of human lives and of the planet. Investing in key growth areas transforming the future therefore provides the avenue to enable future transformation towards a just and more sustainable economy. And this is what Thematics AM offers – thematic strategies that aim at giving both performance and meaning to our stakeholders.

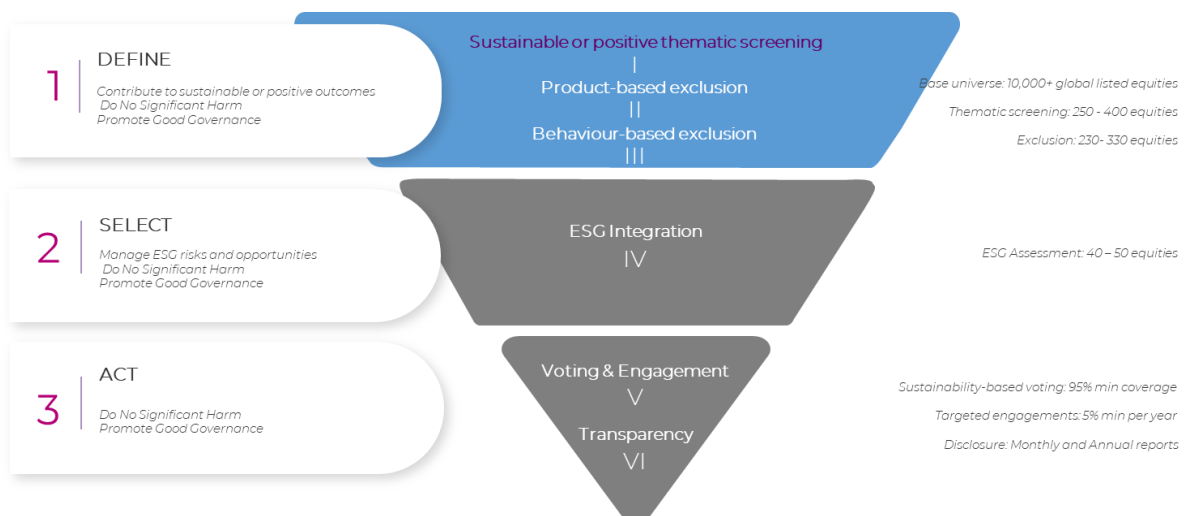
To achieve the sustainable investment objectives or to attain the ESG characteristics of its strategies, Thematics AM embeds Responsible Investment across the end-to-end investment process.

Thematics AM Responsible Investment Framework incorporates the following approaches:

- ✓ Sustainable or positive thematic screening
- ✓ Product-based exclusion
- ✓ Behaviour-based exclusion
- ✓ ESG Integration
- ✓ Active Ownership: Voting and Engagement

These approaches are applied across the three phases of the investment process of Thematics AM: Define, Select and Act - when we define the theme, its boundaries and the securities to comprise the investable universe; during the security selection for the portfolio; and post-investment. These approaches are implemented in all Thematic Strategies systematically and through binding elements.

The definition of the thematic scope and boundary through the Thematic Screening approach is carried out in the Define Phase.



Define

At the first stage of our investment process, we 'Define' our theme, its associated boundaries and ultimately the investable universe for the strategy. We set boundaries around what can and cannot be considered appropriate for the strategy in question. We also apply product-based and behaviour-based exclusionary criteria at company and strategy level in order to do no significant harm and manage sustainability risks, recognising that even companies in positive thematic areas could have an adverse impact on society or the environment.

Select

At the second stage of our investment process, we 'Select' companies that are suitable for investment. ESG Integration is central at this stage. Our proprietary ESG scoring framework is used to assess the environmental, social, and governance risks and opportunities exposure of a security. It aims to mitigate potential ESG risks should they materialise, and to maximise the value created through the ESG focus.

Act

The third phase defines how we 'Act', in terms of sizing positions within the portfolio, and how we actively manage those positions.

'Position Sizing' is defined using thresholds that take ESG scores into consideration. Finally, 'Engagement' with companies on ESG issues and 'Voting' are core elements of our active ownership and engagement approach.

Delivering positive or sustainable outcomes through thematic investing

Thematic investing is a style of investing that focuses on capturing opportunities from emerging growth areas that are driven by primary forces, such as advancing technology, quest for resource efficiency, changes in demography and the acceleration of innovation. These growth areas are in the form of structural megatrends that are transforming how we live today whilst shaping the world tomorrow. Unlike the traditional portfolio construction, a thematic approach is unconstrained, and therefore breaks out from the grid-like method of asset allocation.

Thematic investing's search for new drivers of growth ignores geographical boundaries, style biases and market capitalisation. It also cuts across traditional sector classifications that characterise equity investing most of the time. A thematic lens provides us with distinctive strategic advantages, namely the ability to look across all dimensions to identify emergent and potentially rewarding investment trends, and an analytical insight which allows to interpret the same information differently. It is also inherently benchmark agnostic, breaking away from market capitalisation weighted indices, which give more gravity to the winning industries and companies of the recent past, to invest in tomorrow's winners. These waves of change that are slow to form but impossible to reverse provide enduring growth that far outpaces quarterly or even annual earnings calendar, leading the investment horizon to be long term by design.

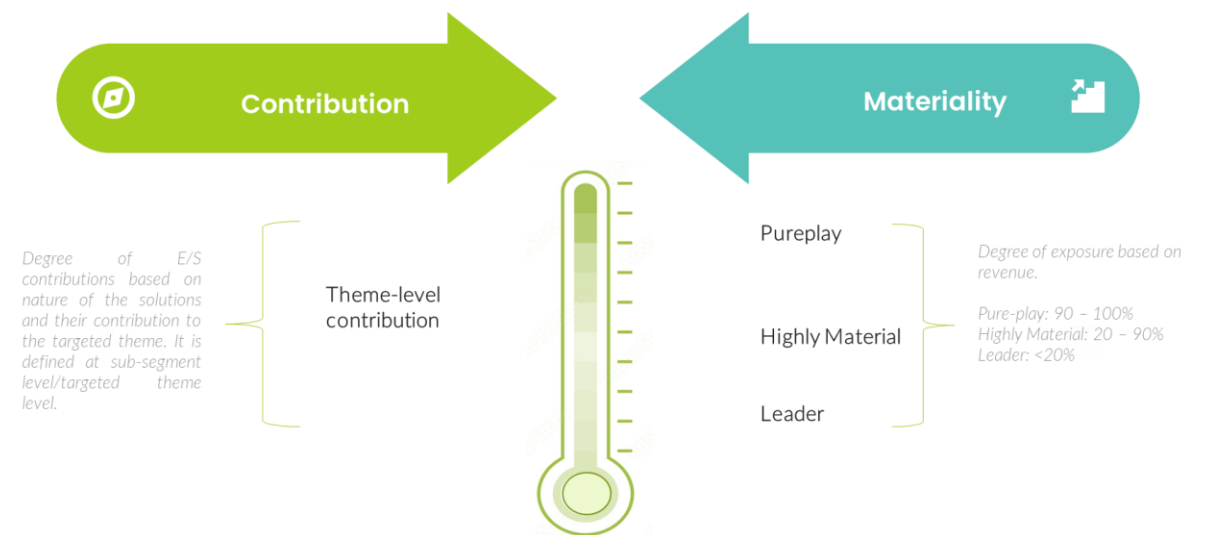
The mainstreaming of sustainable investing in recent years, spurred by regulatory developments, especially in Europe, has also pushed thematic investing into the spotlight. Investors' preference for thematic is growing, in particular, for thematic funds focusing solutions advancing or enabling a more sustainable future.

At Thematics AM, it is our view that thematic investing is inherently tilted towards sustainable investing. Investing in the megatrends transforming our daily lives today is investing in solutions and new business models that are addressing the challenges the planet and humanity is facing. Scarcity of resources as a result of overextraction to power economic growth and provide for the now almost 8 billion population is now fueling innovation in technologies for resource-efficient, cleaner, and more resilient solutions in agriculture and key industries. Rapid urbanisation as a result of the population growth and improvements in education have pushed people into cities in pursuit of better lives. This has driven advancements towards smart, connected, and sustainable urban infrastructure to maintain cities' livability'. These changes have also given rise to emerging patterns of behaviors and value systems - around food preferences, fashion, health consciousness, and general living style. These are just few of the many examples.

Thematic screening

Our strategies are all focused on targeted themes. As such, our screening criteria is a two-lens assessment – contribution to the theme and materiality of exposure.

Screening criteria: Contribution and Materiality



Thematics Asset Management Thematic Screening Framework

Contribution

The assessment in this criterion focuses on qualifying whether a company has solutions or ESG process that contribute to the targeted theme. Please refer to the Annex for the Internal Taxonomy.

Materiality

After qualifying companies based on the thematic alignment of their solutions, we proceed to account for the materiality of their exposure. This assessment is based on the revenue of companies from products or services within the scope and boundary of the theme.

To qualify in the investable universe, a security must meet one of the following:

Companies must generate at minimum 20% of revenues from thematically aligned products, we call this material exposure. Companies whose revenue from thematically aligned products is 90 – 100% of the total revenue is categorised as Pure-play. Those generating 20% to 90% are Highly Material.

Moreover, we may also consider companies generating less than 20% of revenues if they are Leader in their sector. Leadership in sector or industry means that a company must already be exposed to thematically aligned products, and are in the opinion of the Investment Managers, leader in the industry, novel, innovative or with the potential to become disruptive. Specifically, they must possess any of the following:

- ✓ Being a top 5 global player in the market contemplated for inclusion within the theme, or a top 3 regional player
- ✓ Having a strategy to deploy material capital through capital expenditure (CAPEX) or merger and acquisitions (M&A) in the activity contemplated for inclusion within the theme (and for a matter of consistency, material capital deployment means >20% of total CAPEX and/or M&A)
- ✓ Being part of a relevant index for the theme (such as, but not limited to, the ones developed by S&P, MSCI or Solactive)

Building the investable universe

The investable universe is built using a combination of screening data from internal thematic expertise and desktop research of Portfolio Managers, third-party research, external databases, and brokers research. The investable universe is continuously updated and fed by the idea generation from the Portfolio Managers, supported by the ESG team.

This investable universe is also formally used as basis for the ESG integration control (selectivity effectiveness). It is comparable to the strategy in terms of exposure to economic sectors, geographies and market caps.

Transparency

Monthly reporting

For all Thematics AM funds, we publish a monthly factsheet containing a dedicated sustainability performance section with a number of key performance indicators (KPIs), including one relating to the thematic screening approach:

Percentage of asset under management that contributes to the related sustainable development themes. The calculation of contributions is based purely on third-party data to allow comparability.

Annual reporting

All Thematics AM funds, through its annual sustainability report, disclose on a number of sustainability KPIs including one that relates to the thematic screening approach:

Percentage of asset under management that contributes to the theme. The methodology used in counting the sustainability or positive contributions is based on Thematics AM definition and estimation.

Legal Information

Thematics Asset Management

An affiliate of Natixis Investment Managers.

A French SAS (Société par Actions Simplifiée) with a share capital of €191 440. RCS Paris: 843 939 992. Regulated by the AMF (Autorité des Marchés Financiers), under no GP 19000027.

20, rue des Capucines 75002 Paris, France

This document is a non-contractual document for information purposes only. None of the information contained in this document should be interpreted as having any contractual value. This document is produced purely for the purposes of providing indicative information.

It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorization of Thematics Asset Management.

This document has been created and prepared by Thematics Asset Management based on sources it considers to be reliable. Thematics Asset Management reserves the right to modify the information presented in this document at any time without notice. Thematics Asset Management will not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor in the use that a third party might make of the information.