

IMPACT ADVISORY BOARD (IAB)

Minutes of the meeting

Summarised version of the official minutes

Date: Monday, 14 March 2023

Place: Seymour House and via Webex

Attendees

Board Members: Anne Rotman de Picciotto (AdP) – Chair, Tony Juniper CBE (TJ), Kanini Mutooni (KM), Simon Pickard (SP), Dr Jake Reynolds (JR), Bastien Sachet (BS)

Guests: Charlie Annis (CA), Adrien Cambonie (AC), Tidjan Ciss (TC), Yiping Du (YD), Eli Koen (EK), Özgür Göker (OG), Victoria Leggett (VL), Mathieu Nègre (MN), Scott Meech (SM), Rupert Welchman (RW)

Secretary: Robert Wibberley (RWY)

Introduction

AdP welcomed the Board Members.

The minutes of the November 2022 meeting were approved without amendments.

Follow-up points had been circulated prior to the meeting; these were discussed and approved.

Fund review: UBAM - Biodiversity Restoration (BRF)

The BRF was presented to the Board, with the following observations:

- Many of the top 10 positions are US companies, making the portfolio more defensive. Contrary to the general market in 2022, the average market cap has also increased to USD 16 billion.
- Biodiversity themes have stayed roughly stable with slight increases to Planet Compatible Utilities and Sustainable Food Production.
- Its performance compared with its peers remains strong, with defensive changes having proved positive. There are new funds entering the market which should provide momentum for biodiversity investing.

Fund review: UBAM - Positive Impact Equity (PIE)

PIE was presented to the Board, with the following observations:

- The themes are more balanced than ever.
- The largest-cap companies are also the largest positions in the portfolio.
- Industry exposure has seen healthcare and financials rise, with industrials slightly down.
- Changes have been made to the portfolio to ensure its performance remains more robust compared with the MSCI Europe.

Fund review: UBAM - Positive Impact Emerging Equity (PIEE)

PIEE was presented to the Board with the following observations:

- Discussion surrounded how to populate the Healthy Ecosystems segment. The general rebalancing from social themes to environmental themes that started in 2020 is now complete.

- There have been no significant changes to country or industry exposures, although there were concerns about the overall China weighting.
- Relative performance remains good with funding proving quite defensive versus peers.

Impact on the portfolios by the EU Sustainable Financial Disclosure Regulation (SFDR)

The Impact Investment team gave an overview to the Board explaining the SFDR and the impact the regulation had had on the Impact fund range. The main points included:

- The Impact fund range is classified as coming under SFDR Article 9.
 - ▶ This requires that each company in the fund has sustainability as an objective and Does No Significant Harm.
- The SFDR had specific disclosure requirements that came into effect on 1 January 2023 that each fund had to comply with.
- In order to respect the deadline, the latter half of 2022 involved reviewing all companies within the funds to ensure that they complied with the Article 9 criteria.
 - ▶ After each company had been thoroughly researched, a minimum (1 for Biodiversity Restoration, 4 for Positive Impact Emerging Equity and 0 for Positive Impact Equity) had to be sold as they were not aligned with SFDR Article 9 requirements.

Review of the Biodiversity Committee meeting and emerging market healthy ecosystems

TJ gave the Board a brief summary of the Biodiversity Committee's meeting held on 20 January 2023. Topics covered included:

- The view on the COP 15 and Biodiversity Framework.
- A review of the Food Value Chain Round Table organised by the Biodiversity Committee and held in December 2022 with select NGOs and corporates.

Key questions arising from the Round Table included:

- ▶ What does "good" look like? Is a bilateral relationship between the NGOs and corporates the aim or something else?
- ▶ UBP's role in making the Round Table as impactful as possible.
- ▶ What the various parties should aim to get out of the Round Table.
- ▶ How to move from the theoretical to the practical.
- A deep dive into Peace Parks Foundations Impact Tracking – Monitoring, Evaluation, Learning.

Company reviews

Prior to the meeting, each member of the Board had been provided with a detailed description, investment case, ESG profile and IMAP score for five companies.

1. Klabin – IMAP 16 (I = 5, M = 5, A = 3, P = 3)

Klabin is the largest paper packaging producer and exporter in Brazil, the leader in the corrugated paper market, and offers solutions in hardwood, softwood and fluff pulp.

The Board was broadly very positive about the company, noting that it has been a pioneer in aligning business with biodiversity and that it was a clear leader in a problematic industry.

The Board was interested in:

- Understanding how the concept of "community acceptance" was defined.

The Board recommended keeping the score at 16.

2. Croda International PLC IMAP 13 (4, 3, 4, 2)

Croda International is a global speciality chemicals company that produces ingredients and technologies for various industries. The company has made sustainability a key focus of its operations.

The Board was generally positive about the company, again recognising it as a leader in a difficult industry with sustainability being embedded from the very top of the organisation.

- The Board nevertheless questioned whether replacing chemicals with natural bio-based ingredients really showed Intentionality, as this was already a trend in the market. It proposed reducing Intentionality to 3.
- Conversely, the Board recommended raising Potential from 2 to 3, as there was much potential for impacting upstream issues, in particular with palm oil being a principle ingredient.
- The Board questioned the "Land Saved" metric, arguing that it was too theoretical and not tangible, and also asked for further exploration of the biodiversity metrics used.
- The Board also requested some clarification about the language used, as potentially different ideas were becoming conflated.

The Board recommended keeping the score at 13 but recommended reducing Intentionality to 3 and increasing Potential to 3.

3. Delta Electronics IMAP 15 (4, 3, 4, 4)

Delta is a global provider of power and thermal management solutions. The company has three main business lines:

Power Electronics, Automation and Infrastructure, mostly serving the consumer electronics, industrials, buildings, telecoms, data centres, renewable energy and electric vehicle (EV) end markets.

The Board generally felt that 4 for Intentionality may be too high, and:

- Questioned whether the data centre business was focused on making them more efficient or on increasing the number of data centres.
- Was concerned about the electric vehicle waste stream and impact on rare metals, as well as its circularity in general.
- Generally felt that there was a lack of sustainability ambition.

The Board requested more information in order to inform the decision on whether to decrease Intentionality or not.

4. **Shriram Finance IMAP 14 (4, 4, 2, 4)**

Shriram has been a leading player in the pre-owned commercial vehicle (CV) financing segment with a market share of 25–27%, currently serving over 2 million customers all across India and with USD 14 billion in AUM. The company has played a credible role in the financial inclusion of millions of first-time buyers (FTB) and drivers-turned-owners (DTO) by offering affordable finance on pre-owned commercial vehicles.

The Board enquired as to:

- Whether pre-owned vehicles were aligned with the SDG aims of the fund.
 - ▶ This led to a debate on balancing the social aspects of the fund with the environmental ones. On the social side, this sort of financing has a direct impact on increasing income, reducing wealth inequalities and reducing poverty.

- ▶ As well as the observation that, although emissions are obviously a problem, average CO₂ emissions in emerging markets are multiples lower than in developed markets.

- Whether the Intentionality of the company was truly to solve a sustainable issue or just opportunistic. The Board recommended reducing the Intentionality score.
- Whether better impact measurements could be provided, questioning the validity of the “driver-turned-owner” measurement.
- There is a lack of sustainability incentives in executive remuneration.

The Board recommended reducing Intentionality to 3 with an overall IMAP score of 13.

5. **AstraZeneca (IMAP: 4, 4, 3, 3 = 14)**

AstraZeneca is now purely a pharmaceutical company, unlike many of its peers which also operate in areas such as Consumer Healthcare, Generics and Vaccines.

The Board was generally positive about AstraZeneca, noting that it signals good and purposeful behaviour. The Board commented that:

- AstraZeneca focused a lot on climate yet not much on biodiversity. Biodiversity is critical in the pharmaceutical value chain, including upstream where plants are the sources of many medicines, and downstream where there are issues of drugs entering water systems.

The Board recommended keeping the score at 14.

Conclusion

There being no other business, AdP thanked everyone present for their time and insights.

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