MAY 2021

# IMPACT REPORT 2020: SYNOPSIS

Impact investing is evolving rapidly. Each year, we think that the current rate of development will be impossible to match, only to be surprised by even faster growth. The year 2020 was no exception. Indeed, it was the year when sustainable investing came of age. It also was the year when the UBP Impact team extended its reach to emerging markets. Two key areas of development over the course of last year have been our thematic approach and the evolution of our engagement process. Biodiversity has become of primary interest to us, underscored by the launch of the Impact platform's Biodiversity Policy in 2021 and the addition of a fourth member to UBP's Impact Advisory Board.

Impact investing and sustainable investments are not one and the same thing. Unlike leading multinational companies, whose focus on environmental, social and governance ("ESG") criteria often accords them high scores, impactful companies are not necessarily ESG champions. At UBP, impact investing typically starts with the identification of a powerful solution for which sustainability plays an important, but merely supporting role. What matters to us is the degree to which a company's approach to its operations is in harmony with its products and revenue streams.

This document is a summary of the third edition of UBP's annual Impact Report, published in May 2021. Read the full version on UBP.com > Funds. Please note that restrictions may apply.

Marketing document

UBP

UNION BANCAIRE PRIVÉE

# The year 2020 for UBP's Impact strategy

## IN DEVELOPED MARKET EQUITIES

The extraordinary volatility of 2020 has not spared Impact equities in developed markets. The dangers of poorly timed portfolio changes and disproportionate reactions to headlines were ever present. We reacted by further developing our risk controls and the art of optimal position sizing, which helped achieve smoother returns. The positive return achieved over the year was partly driven by the eye-catching share price rises of the Climate Stability theme.

Our new thematic structure has proved efficient at idea generation. As a result, our investment universe has become much richer over time, spanning a diverse industrial and geographical spread, from fuel cell technology in the UK to telemedicine in China and accessible banking in India. We have made further progress in effectively measuring non-financial benefits, mainly via engagement. We will keep encouraging our companies to measure and disclose their unique attributes better, as we believe such self-awareness is an undeniable factor in the generation of both impact and financial returns.

## IN EMERGING MARKET EQUITIES

One of the most exciting developments for our impact platform in 2020 was the launch of UBP's emerging markets strategy, following over two years of preparation. The portfolio construction process was specifically designed to balance our dual mandate of delivering positive impact and financial returns. The main challenge was to balance our goal of investing in impactful companies while making sure that our investors' capital was protected during a very volatile period. We believe we have achieved this goal and the strategy successfully delivered the due mandate of impact and financial returns at the earliest stage of its life.

The emerging market equity universe is interesting from a positive impact point of view, as it includes some of the leading solution providers in areas such as clean transport, renewable energy, energy storage, efficiency and industrial automation. In addition, it includes many companies that propose solutions for local problems such as sanitation, waste management, affordable, quality healthcare & education, microfinance and financial inclusion.

## CARBON EMISSIONS

Reporting of Scope 1 and 2 carbon emissions at portfolio level is one area where data disclosure by companies is relatively good. However, this represents only a fraction of the complete picture. To generate a more comprehensive assessment of our current emissions profile and highlight areas of improvement, three Scopes of emissions need to be considered, in particular Scope 3, which represents up to 85% of a company's total emissions.

Obtaining comprehensive company-disclosed data remains challenging, therefore emissions data analyses rely heavily on modelling. We have partnered with Urgentem, an industry-leading data provider with a heritage in Scope 3 emissions analysis in order to ensure high-quality data modelling.

One area of debate is the concept of avoided emissions. We're highlighting this as an issue, as it attempts to assess the external benefits that companies in our portfolio create through their value chains. Avoided emissions are broadly defined as those created by a product or service using lower carbon-intensive energy, or the emissions saved during the use of that product or service compared with industry averages.

## PORTFOLIO ALIGNMENT TO CLIMATE-WARMING SCENARIOS

These data enable UBP to estimate portfolio alignment to various climate warming scenarios over time, using global average temperature curves produced by the International Energy Agency and the Intergovernmental Panel on Climate Change (IPCC). According to this analysis, our developed markets Impact investing strategy is currently well aligned with the 1.5°C Low Energy Demand pathway of warming until 2030. Whilst good, this analysis suggests that further decarbonisation at a rate of 5.6% per annum will be required for the portfolio to remain on a 1.5°C trajectory to 2050, an achievable rate in our view as companies become better equipped to implement climate change mitigation strategies.

### Scope 1

Emissions from sources owned or controlled by a company

### Scope 2

Emissions associated with purchased energy

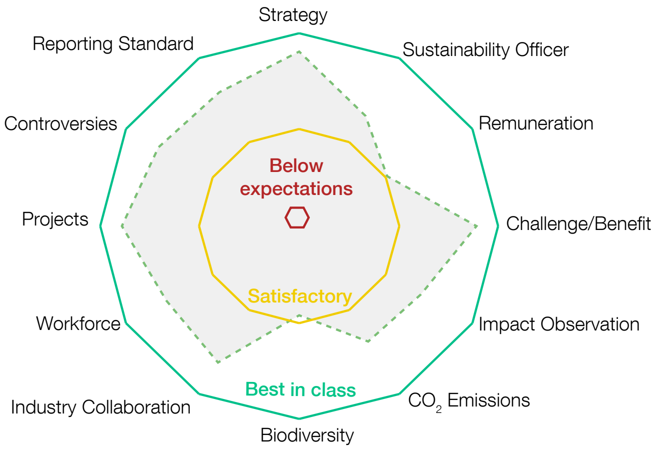
### Scope 3

Emissions from sources neither owned nor controlled by the company but related to that company's business, e.g. the supply chain
Scope 3 emissions cover fifteen categories throughout the value chain, both upstream and downstream

## UBP'S IMPACT ENGAGEMENT FRAMEWORK

Our proprietary Impact Engagement Framework (IEF) is an indispensable tool in assessing this and in shaping our engagement. It was scaled up considerably in 2020 following a deep assessment of all 85 companies held in UBP's two impact strategies, adding new areas on diversity and biodiversity and refining some of the questions that we ask candidate companies. We score holdings according to three categories: "Best in Class", "Satisfactory", and "Below Expectations". The results are then grouped to give a top-down snapshot of where the portfolio companies are currently placed. Identifying the benefits for people or the planet is the first step of our analysis, after which we evaluate many other factors which give us a picture of how the company is fulfilling its ultimate purpose.

EXAMPLE OF IMPACT ENGAGEMENT FRAMEWORK FOR THE POSITIVE IMPACT STRATEGY




Source: UBP

## INVESTMENT THEMES

One of the aims for 2020 was to build on our thematic approach. Our six investment themes are the backbone of our investment process, since they support the development of effective idea generation and clear measurement goals. We have enhanced the value of these themes in three ways: with the introduction of dedicated thematic champions, with clearer and more explicit language to link the themes with our theory of change, and finally with the first attempt at impact attribution by theme.

The concept behind the introduction of thematic champions is to add an additional layer of research to our six investment themes. The reason we felt the need to go beyond the traditional sector specialisation model is that the objectives of our themes require global solutions across many different sectors, often with financial and environmental trade-offs that employ a cross-sector top-down assessment and guidance to decide which of them we want to support the most.

In 2020 we were able to begin assessing impact performance according to each aspect of our IMAP score in addition to investigating relationships between IMAP score and theme. IMAP stands for intentionality, materiality, additionality, potential, i.e. the four key criteria by which UBP's Impact investing team judges the "impact intensity" of portfolio companies.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| THEME | CLIMATE STABILITY | HEALTHY ECOSYSTEMS | SUSTAINABLE COMMUNITIES | HEALTH & WELL-BEING | BASIC NEEDS | INCLUSIVE & FAIR ECONOMIES |
| THEMATIC OBJECTIVE | Limit GHG levels to stabilise global temperature rise under 2°C | Maintain ecologically sound landscapes and seas for nature and people | Preserve stocks of natural resources through efficient and circular use | Enhanced health and equality of opportunity for all | Nutrition, education, financial inclusion, clean water & sanitation for all | Fair & socially inclusive growth and working conditions for all |
| INDUSTRIAL VERTICAL | ▪ Renewable energy production<br>▪ Renewable energy equipment<br>▪ Energy efficiency<br>▪ Energy storage & distribution | ▪ Ecotourism<br>▪ Sustainable aquaculture<br>▪ Sustainable agriculture & forestry<br>▪ Ecosystem pollution reduction<br>▪ Plant-based diet | ▪ Resource efficiency<br>▪ Affordable housing<br>▪ Private & commercial transport<br>▪ Infrastructure & public transport<br>▪ Waste management & recycling | ▪ Healthcare financing<br>▪ Pharmaceuticals<br>▪ Medtech & life sciences<br>▪ Healthcare infrastructure<br>▪ Healthcare services<br>▪ Fitness & safety | ▪ Water supply<br>▪ Education<br>▪ Nutrition<br>▪ Financial inclusion<br>▪ Sanitation | ▪ Testing, analysis & certification<br>▪ Enabling technologies<br>▪ Financial stewardship<br>▪ Products & services for women and minorities<br>▪ Automation |

## COLLABORATION AND BIODIVERSITY

Collaboration is a key element of our Impact investing effort, particularly in the area of biodiversity. Much of the global economy depends on natural systems – climate stability, ocean health and soil quality – working properly. Increasing damage to ecosystems is worrying for environmental reasons, but it also presents significant business risks, potentially hampering activities and value chains and causing raw material price volatility. System disruption creates physical liability, transition risks for businesses left behind in the environmental drive and litigation uncertainty associated with the finance industry's exposure to sectors that may face legal challenges due to their role in biodiversity loss. Assessing these risks is essential for the sustainability of humanity. We have come a long way, but there is still much to be done. We believe biodiversity will take centre-stage in the coming years, as the industry finds a way to assess investments for their positive or negative biodiversity impact – and ultimately to establish whether biodiversity restoration presents a challenge or an opportunity to their business models.

## ASSET MANAGEMENT AS A DRIVER OF UBP'S SUSTAINABILITY APPROACH

The original impetus for UBP's sustainability approach came from the Asset Management division, from where it is spreading fast to all areas of the Bank. UBP has always had a golden rule: whatever we do must be for the good of our clients. Responsible investment is a critical part of that – it doesn't conflict with it. Indeed, what's good for the environment can also be good for the client. Sustainability is in fact part of the fund managers' fiduciary duty.

An important governance milestone in this sense has been the supervision role given to the Executive Committee over the Responsible Investment Committee and the Corporate Social Responsibility Committee, allowing sustainability to be central to the Bank's strategic decisions. This is evident in UBP's ten sustainability targets. UBP aims to be a pioneer in areas not traditionally associated with sustainability, helping to create responsible investment options across the whole asset suite, like in emerging market fixed income and convertibles, for example. Our aim is to explore new ideas and products that will feed into the broader sustainability approach for our clients.

In 2020, UBP asserted its commitment to responsibility once more by joining leading industry sustainability initiatives such as the United Nations Global Compact (UNGC). We also showed our determination to address major issues by supporting the Task Force on Climate-related Financial Disclosures (TCFD) and joining Business for Nature, a global coalition bringing together influential organisations for the purpose of asking governments to adopt ambitious policies for the preservation of nature.

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The unabridged version of UBP's annual Impact Report goes into considerably more detail on the subjects mentioned in this summary, giving a clear picture of UBP's Impact investing process for its developed and emerging market strategies, its methodology and the results it has achieved. Additionally, it outlines the ambitious to-do list for 2021 and features a foreword by Anne Rotman de Picciotto, Member of UBP's Board of Directors and Chair of the UBP Impact Advisory Board, as well as an interview with Nicolas Faller, Co-CEO Asset Management & Head of Institutional Clients.

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Do you want to dive deeper into impact investing?
Follow our Impact Instagram account!
**@ubp.impact**

## UBP'S KEY SUSTAINABILITY TARGETS

Include sustainability factors in all of UBP's investment decisions

A quarter of UBP's mandates to be fully sustainable investments by 2022

Integrate ESG criteria into UBP's entire selected investment universe

Offset UBP's carbon footprint in 2021 and reduce it by 25% by 2025

Apply ESG criteria to all new Treasury investments

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May 2021

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