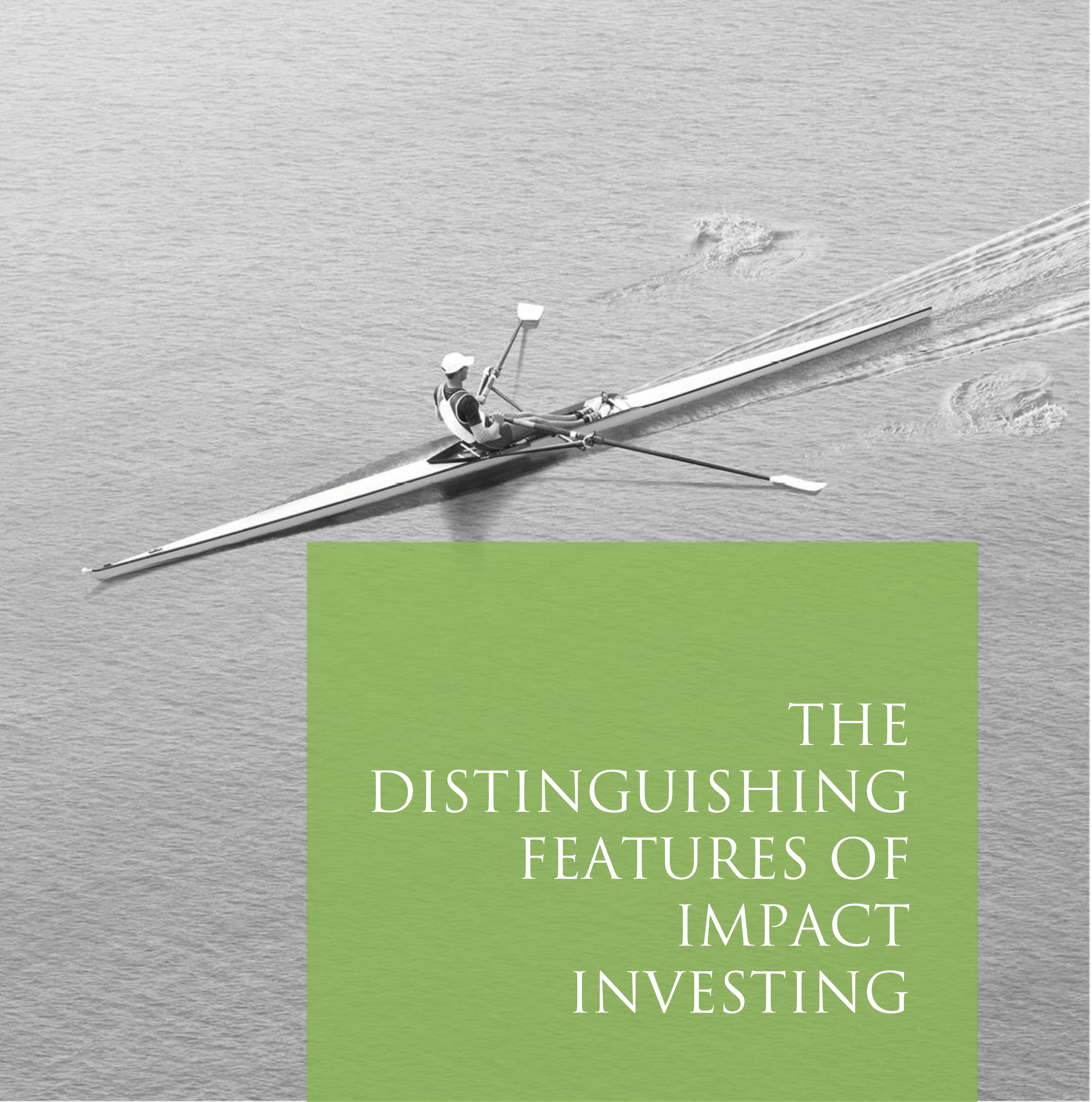


THE DISTINGUISHING FEATURES OF IMPACT INVESTING

White Paper

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

Asset Management | December 2020

UBP
UNION BANCAIRE PRIVÉE

Key points

- *Impact investing is clearly differentiated from other sustainable investment solutions, but still takes ESG criteria into account*
- *In terms of risk, it reduces the chance of ending up with stranded assets*
- *In terms of performance, it benefits from three growth pillars: innovation, changes in regulations, and demand from consumers*
- *The Sustainable Development Goals (SDGs) are global and not regional, but the European market offers a superior pool of impact companies: Europe is more advanced as regards sustainability and therefore provides supportive legislation which has nurtured positive impact companies, therefore making the universe bigger*
- *Asset managers who can fulfil the dual mandate of impact investing are well placed to capture the expected outperformance of the "fixers" (i.e. those who provide the solutions to our planet's biggest problems)*

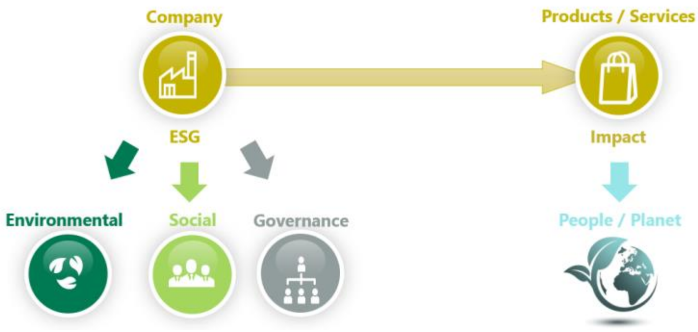
The growing market

According to the Global Impact Investing Network (GIIN), the impact market, which doubled in size in 2018, continued its solid growth in 2020, reaching USD 715 billion. This stunning growth points to the beginning of a shift in preferences towards impact investing, i.e., "the intention to generate a measurable social or environmental impact alongside a financial return". We believe that companies helping to solve the acute challenges faced by society and the planet are ideally positioned for steady growth over the coming decades.

Impact investing is clearly differentiated from other sustainable solutions

There is still much confusion about what separates impact investing from other sustainable investment strategies. ESG (environmental, social, and governance) investing typically focuses on a company's operations, whereas impact investing focuses on its output, whether products or services. ESG criteria are used to assess how well a company is run, but they say nothing about the effects of its business on the world. With impact investing, it is critical that making a positive and purposeful impact should be part of a company's business model.

ESG focuses on OPERATIONS, Impact focuses on the PRODUCT/SERVICES



Source: UBP, as at 30 November 2020

Reducing the risk of ending up with stranded assets

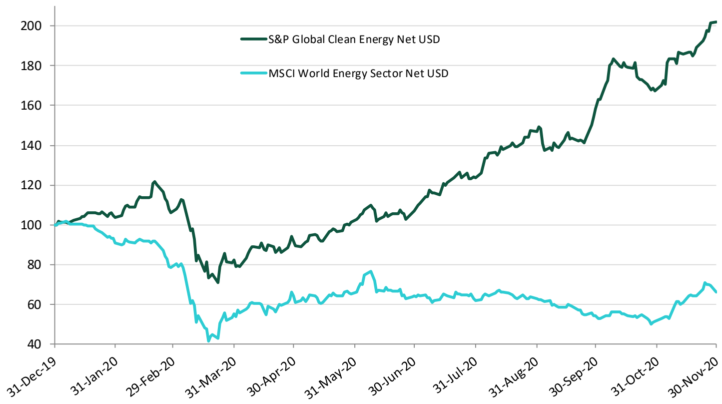
To access the purest solution-providers – or "fixers" – of our planet's biggest problems, impact investing creates a natural small- and mid-cap bias through listed equities for three reasons:

- They have fewer legacy issues
- They are more monoline and as such will tend to have a higher percentage of revenues derived from areas generating a positive impact
- They have more potential for successful engagement

We believe that this bias offers an additional potential source of return, especially when optimally blended with a client's portfolio to improve the risk–return ratio.

Additionally, impact investing helps reduce the risk of ending up with stranded assets. For example, coal companies are finding it increasingly difficult to survive as going concerns and this raises interesting questions for other fossil fuel producers and extractive industries. By entirely avoiding some of the most problematic sectors, impact investing is an excellent way of protecting investors against this risk, and that has major performance repercussions.

As at the end of November 2020, the S&P Global Clean Energy Net USD index delivered a performance of 102% while the MSCI World Energy Sector net lost 34%:



Sources: Bloomberg Finance L.P., UBP, as at 30 November 2020

In terms of risk, assessing a company's ESG criteria is an integral part of our investment process; not only does this allow us to better understand the risks a company is facing, but it also presents opportunities to generate alpha and increase the level of certainty regarding their forecasts. Companies with strong (or improving) ESG practices typically generate more sustainable cash flows and are less vulnerable to accounting irregularities, regulatory changes and the associated fines and structural threats.

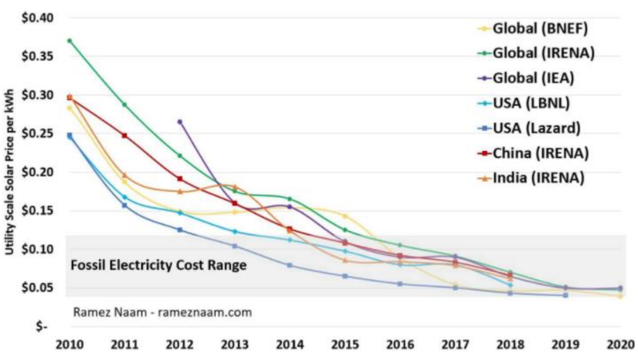
A growth style with multiple outperformance drivers

Our impact strategies have a growth bias, but, interestingly, the growth drivers differ from traditional growth portfolios which often rely on the technology sector. Effectively, growth on the impact side is built on three pillars: innovation, changes in regulations and demand from consumers.

Innovation

Innovation is obviously one of the main sources of growth and it can also act as a tool for addressing global challenges, such as social issues and climate change. The dual role of innovation as a driver of growth and sustainability is recognised by SDG 9, which seeks to build resilient infrastructure, promote sustainable industrialisation, and foster innovation.

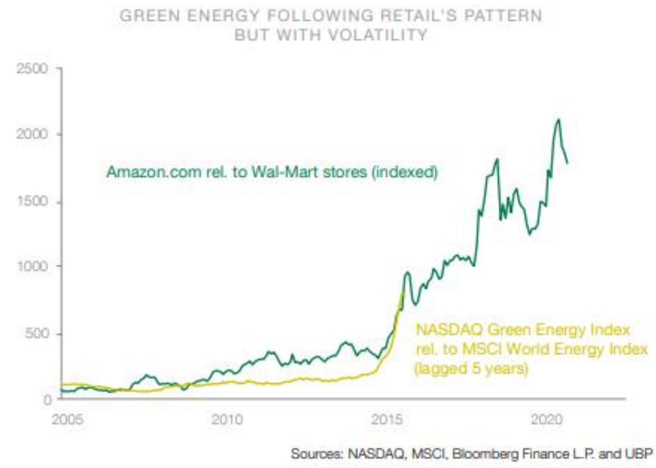
Solar energy is a good illustration of the importance of innovation. Thanks to innovation, the cost of solar energy dropped by a factor of between 5 and 8 between 2010 and 2020:



In this case, technological innovation helps to develop better tools to decarbonise the planet, while reducing the cost of energy and increasing global prosperity.

Regulatory changes

The green transformation of the global economy also offers opportunities spurred on not only by the broader environmental movement, but also increasingly by government funding and regulation. Much like the internet and mobile computing served as transformative growth themes amid the volatility of the technology bubble at the turn of the century, so we expect a number of long-cycle themes will be integral parts in this cycle's global, post-pandemic economic reshaping:



Source: UBP, as at 30 November 2020

The world appears to be on the cusp of a long-cycle transition from fossil-fuel dependency towards a future that relies on renewables. The European Union's sustainable finance taxonomy and the upcoming frameworks created by China's five-year plan are providing catalysts for the current wave of transformation.

Consumer demand

The world is changing fast and people are increasingly aware of the challenges we are facing as human beings – climate change, pollution and rising inequality. The ongoing COVID-19 pandemic has only exacerbated this sense of emergency. The months since the start of the global pandemic have spurred changes to the global economy that, even with a vaccine and a return to "normal", will probably not be unwound. Good illustrations of this are the boost in online services, providers of remote medical services joining the mainstream, and the increase in electric vehicles' market share.

From investment opportunities to our strategies

We have benefited from our collaboration with the Investment Leaders Group ("ILG", facilitated by the Cambridge Institute of Sustainability Leadership) to address the 17 UN Sustainable Development goals through six themes: climate stability, healthy ecosystems, sustainable communities, basic needs, health & wellbeing, and inclusive & fair economies. Each theme represents a number of SDGs and sub-goals. This allows for real efficiency in the investment approach as the hunt for ideas is led from these areas, rather than the more traditional "GICS" sector or geographical breakdowns.

SDGs and the problems they are intended to solve are global, rather than regional, hence the goal is to invest in the best solution for a particular SDG wherever that company is listed, which includes the developed world and emerging markets. Nevertheless, we noticed that the European market offers a superior pool of impact companies and this results in a European bias at portfolio level, although our largest country exposure is to the US.

The essentials

The launch of the UN's Sustainable Development Goals (SDGs), provided a roadmap for addressing the most pressing issues facing our society by 2030 and beyond. According to the UN, getting there will require an estimated annual investment of USD 5–7 trillion. We believe that companies which help to solve societal and environmental challenges are uniquely exposed to a clear growth path over the coming decades. These businesses will benefit from innovation, regulatory changes and a shift in consumer demand, enabling them to grow faster. As stock prices tend to follow EPS growth, these companies will tend to outperform the market and this potential will be captured by those asset managers who are able to fulfil the dual mandate of impact investing.

Stock examples

Hoffman Green Cement , which is seeking to industrialise heat-free cement, is an interesting case. The cement industry is responsible for 8% of carbon dioxide emissions. Significantly, if it was a country, it would be the third most polluting in terms of $CO2$ after China and the United States. The unique characteristics of Hoffman's cement solution can save 80% of the energy used in the traditional cement-making process.

Safaricom embodies the characteristics we look for in impact stocks which focus on emerging markets. The company is the largest mobile telecoms operator in Kenya. However, telephony is a real enabler in developing societies; people often use it to live their lives and run their businesses. In the case of Safaricom, the wholly-owned money platform, M-Pesa, provides the local population – a majority of whom do not have access to traditional banking facilities – with access to transfers, loans, deposits, transactions and other financial services. In other words, its services are having a meaningful impact at affordable prices at societal level, helping to alleviate poverty.

The securities identified above should not be considered as recommended for purchase or sale.

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