SEPTEMBER 2021

UBP IMPACT INSIGHTS

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus

CONTENTS

UBP

UNION BANCAIRE PRIVÉE

What's been happening since our 2020 Impact Report

Welcome to the first edition of the UBP Impact Newsletter. Between the annual impact report and the regular thought pieces the team produces, we felt that our clients – current and future – would welcome a more informal update from the world of impact investing in listed equities, as seen through the eyes of the UBP team. We hope you find the contents informative and thought-provoking. We've tried to keep the sections brief, while indicating that in many cases more detail on a topic is available via click-throughs or on request.

Trends in the investment world are continuing to evolve at pace. Several themes are emerging. Firstly, sustainability is becoming more deeply embedded in corporate culture. We may be close to the point of no return in terms of non-financial considerations remaining voluntary for corporations. The EU taxonomy, SFDR (Sustainable Finance Disclosure Regulation) and the broad uptake of emissions targets – to name just a few important initiatives – will ensure that we continue along this path. Whilst of course there is much more to be done, we are detecting a real sense of purpose and intent leading up to the UN Biodiversity Conference (COP 15) in October and April 2022 and the UN Climate Change Conference (COP 26) in November.

Investors in listed impact funds will recall how stunning a year 2020 was, both in terms of cementing the importance of considering beyond-profit factors when selecting investment funds, and as regards the relative returns generated by this style of investing. 2021 has been more mixed. As at the end of August, UBAM - Positive Impact Equity had generated a year-to-date return of +14.7% (net of fees) versus an 19.81% rise in the MSCI Europe index. As the fund reaches its third anniversary, assets under management have grown to EUR 364 million and it has delivered outperformance of +22.6% since inception. UBAM - Positive Impact Emerging Equity has returned 8.5% (net of fees) in 2021 versus 2.8% for the MSCI Emerging Markets index. Since its launch in May 2020 the fund has grown to USD 232 million and over that short period it has generated a return of +93.1%, 42.7% better than the index (as at August 2021).

In our 2020 Impact Report, we highlighted several initiatives in our to-do list for 2021. These include bringing together impact and financial attribution, identifying negative impacts more effectively and reducing them, adopting a clear biodiversity policy and broadening the team communication via Instagram and other media. We have reviewed how we can access impact in areas where profitable listed companies are absent. We have broadened the number of non-profit organisations in whose activities we invest through a mechanism related to the size of UBP's impact funds. We have added three organisations: Peace Parks Foundation, BRAC and Forum Asia, bringing the total number to six.

Finally, our external Impact Advisory Board met in May. A wide range of topics were covered in the meeting, and the five IMAP scores and investment cases below were reviewed.

May Advisory Board Meeting

Holding	Points raised	Action taken
Transaction Capital	Sustainability alignment	Engagement on sustainability commitments
Cipla	Materiality, CO_2 footprint, environmental contamination	Further engagement on Cipla's role in combatting Covid-19
Kerry Group	Materiality score too high, dairy exposure	Further engagement on disclosure e.g. base for targets
Intertek	Intentionality, Materiality, emissions targets	Intentionality score downgraded
Ceres Power	Social considerations, ESG policies of customers	Further engagement on SBTi and social initiatives

For illustration purposes only. The securities identified above should not be considered as recommended for purchase or sale.

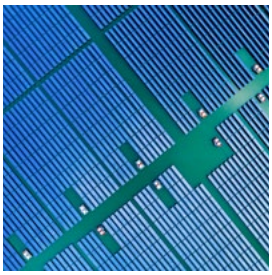
WHAT WE'VE BEEN SAYING AND WHY

Impact investing in listed markets is complicated. The team talks to a huge number of investors of all shapes and sizes and one of the most common requests is for us to explain how it is possible to embed an impact-focused process into the traditional world of listed equity investing. In pursuit of one of our key principles – transparency – we have produced a wealth of publications seeking to inform and, in some instances, dispel misperceptions around key areas of economic activity. The team has written three white papers and six updates so far in 2021 as well as the 2020 Annual Impact Report. Topics range from a focus on the upcoming COP 26 to a summary of the recent IPCC Report. We summarise a couple of our favourite publications below, and we will be happy to share the full list on request.

From Paris to Glasgow: The Return of the US to the Climate Fight (White Paper - March 2021)

On 1 June 2017, President Trump announced that he would take the US out of the Paris Agreement. Although the withdrawal could not technically happen until November 2020, its impact was far more immediate and depressing. Fast forward to the current Biden administration and much around the world of sustainable government has changed for the better over the intervening years. This white paper covers the background behind the climate crisis and what we can expect from COP 26 in Glasgow later this year.

> Read the White Paper



Impact Investing in emerging markets post Covid-19 (White Paper – July 2021)

Covid-19 has exposed how wide the gap is between the various emerging markets. This paper delves into the characteristics of emerging markets and divides them into three categories: those profoundly affected by the pandemic, those seeing faster growth as a result of the pandemic and those where the pandemic is just a bump in the road.

> Read the White Paper

Sustainable fashion – a contradiction in terms? (White Paper – August 2021)

Only 1% of clothing is currently recycled. Fashion could be the unintended poster child of the unsustainable linear economy, and yet we are all consumers of fashion to a lesser or greater extent. This white paper, by our intern Ekaterina Naumova, delves into the uncomfortable truths behind the fashion value chain from design through to end-of-life, and suggests several ways in which circularity can be improved at all levels, from consumers to governments.

> Read the White Paper

COLLABORATIONS

Within our team, collaboration outside of UBP is actively encouraged as a vital way of keeping informed and involved with important initiatives and of helping to build the transition towards sustainable finance. In this section, we highlight a few key initiatives we are currently involved in.

FAIRR Sustainable Aquaculture Working Group

In line with our goal to accelerate improvement in business practices, members of the Positive Impact team have joined FAIRR's Sustainable Aquaculture working group. The collaboration brings together like-minded sustainability investors to engage with eight salmon aquaculture producers regarding ESG risks in the feed supply chain.

Feed sources and ingredients have become a critical area for change, since feed production is responsible for more than 90% of feed-to-farmgate emissions in salmon production. Strategies must therefore align with climate goals and the aim of the initiative is to encourage the development of a science-based strategy, including use of alternative feed ingredients, related targets and R&D spending.

Following an engagement letter sent to all eight companies regarding the biodiversity and economic risks arising from the sector's current dependency on soy and fishmeal/fish oil, productive conversations are now ongoing with the salmon producers' management teams. Corporates have proven to be open to conversations on the topic and have shared with us valuable insights on their existing alternative feed initiatives.

University of Cambridge Institute for Sustainability Leadership (CISL) steering group on nature-related financial risks

Biodiversity is a crucial topic given that more than half of the world's GDP is at risk due to nature loss[1]. UBP is playing an active role in measuring the impact of biodiversity loss as a member of the CISL steering group on "nature-related financial risks". CISL has published a briefing document that summarises why biodiversity loss and land degradation matter[2], along with a framework for plotting financial risk exposures[3] in order to help financial institutions identify the specific

[1] https://www.weforum.org/agenda/2021/05/international-day-for-biological-diversity-5-ways-biodiversity-matters/

[2] https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/financial-materiality-briefings

[3] https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/handbook-nature-related-financial-risks

nature-related financial risks they are facing. As a member of CISL's Investment Leaders Group, UBP co-operated with CISL during the publication of these documents. As a next step, together with other steering group members, UBP is now working on one of the use cases related to the "EU's Farm to Fork and Biodiversity Strategy", creating methodologies to assess specific cases of nature-related financial risk.

The Sustainable Commodities Practitioners Group – Facilitated by the PRI

Among the PRI Investor Working Groups within the Sustainable Commodities Programme, 85% of investors do not yet have a distinct deforestation policy and only 5% have a defined process to assess deforestation as risk.

The Sustainable Commodities Practitioners' Group includes 55 signatory organisations, which are participating in a 12-month programme of workshops involving opportunities to address deforestation as a systemic risk, with inputs from technical experts. The workshops are designed to increase investors' understanding of their role in addressing deforestation risk, and to build the foundations for aligned approaches. Topics covered in the workshops include deforestation policies/strategies, metrics, engagement strategies and reporting.

The study group explores whether and how financial institutions can, within the remit of their mandates, play a role in addressing the challenge of biodiversity loss itself and the knowledge gaps around it, from assessing and monitoring the relationship between biodiversity loss and financial stability to considering how portfolios could include conservation goals.

ENGAGEMENT STORIES

Engagement with listed companies is one of the key roles that impact investors can fulfil within listed equities. It is a responsibility that the UBP team takes seriously. A full understanding of the impacts in a value chain, from origination to consumption, is key to reformulating how global economies can function sustainably. Often one company is celebrated for its low CO_2 emissions per dollar of revenues while another is criticised as a heavy emitter without consideration of whether one party outsources a significant part of its carbon footprint (or social underperformance) to another entity. The UBP Impact team focuses on identifying and supporting fixer companies, many of whom sell processes that are much more efficient than the industry norm but still have some negative characteristics, for example lower but still meaningful CO_2 emissions produced in a more sustainable industrial process. Through engagement, we can play a part in helping a company more clearly disclose how their business benefits the world socially or environmentally.

Befesa

- Theme – Sustainable Communities
- Impact Objective – Balance preservation and circularity of resources with the needs of growing communities
- Industrial Vertical – Resource-Efficient Industry & Construction
- Industrial Vertical Objective – Provide innovative solutions to making industry and construction more resource-efficient and/or circular
- Target KPI – Volume of industrial waste managed

One such engagement example comes from our recent conversations with the German/Spanish steel dust recycler, Befesa[1]. The company represents just under 30% of the entire Scope 1 and 2 CO_2 emissions of the UBAM - Positive Impact Equity fund (as at 30 June 2021, source ISS). The second-largest emitter is a cardboard recycler and manufacturer and the third-largest is a waste recycler. These three holdings represent less than 10% of the fund's NAV but around 80% of its emissions. They all provide crucial steps in the circularity of economic activity but at a heavy direct CO_2 cost. So what about the CO_2 savings they create for other stakeholders?

Befesa demonstrates the importance of adopting a holistic approach when judging impact companies. When we talked to the company in August, our conversation focused on the ways they are improving communication regarding impact. For example, the board is currently assessing which sustainability targets to embed within their KPIs. Once these have been agreed, it wants to link remuneration to these targets more explicitly. Befesa is also actively working on how best to explain the huge emissions savings resulting from its waste-based aluminium and zinc production processes compared with the primary production of those metals: it estimates that its approach cuts emissions by as much as 90% and avoids the destruction of natural capital. To fully get to grips with the opportunity that Befesa offers from an environmental and climate point of view, it is necessary to understand non-financial costs across the whole value chain

[1] Names are provided for illustration purposes only and should not be considered as investment or disinvestment recommendations.

involved in the production of these base metals. Our engagement is focused on encouraging Befesa, through its disclosures, to increase awareness that there is a better way of producing aluminium and zinc.

Bandhan Bank

- Theme – Basic Needs
- Impact Objective – Nutrition, education, shelter, financial inclusion and clean water and sanitation for all
- Industrial Vertical – Financial Inclusion
- Industrial Vertical Objective – Providing access to financial solutions for the previously un- or underserved
- Target KPI – Loans provided to the un-/underserved

We also had a constructive discussion with Bandhan Bank[1], a national bank in India with a focus on low-income borrowers and microfinance. The bank has a unique history as it was initially created as an NGO 20 years ago, focusing on empowering women via microcredit. Since then, it has turned into a for-profit corporation. It has also acted as a consolidator in its industry and has greatly increased the range of financial products it offers. It is now able to gather deposits from its more affluent and urban customers to lend to small businesses and microentrepreneurs, predominantly in rural areas.

Due to its history, Bandhan Bank understands our perspective as impact investors. During our most recent call, we were lucky enough to have the CFO and the founder answering our questions. Their commitment to positive social impact is impressive. The bank has retained its original mission, and this makes it a great investment for us. We called for more systematic data disclosure regarding social impact. They acknowledged that more could be done, but also told us that the bank had allowed many researchers to work with it over the years, motivating leading economists publishing key papers on the impact of microcredit based partly on data collected by Bandhan. For instance, Nobel Prize winner Abhijit Banerjee has mentioned the bank in a few of his publications[2]. We would still prefer to see a more complete integrated report, but we recognise the value of this point.

We also had an extensive discussion about the importance of disclosing Scope 3 greenhouse gas (GHG) emissions. We explained that if the bank continued with its current policy of not disclosing them, then most data providers would assume that its Scope 3 emissions are in line with the rest of the banking sector. Because large banks tend to finance large industrial companies and other businesses that emit much more carbon than Bandhan's micro-borrowers, it would be in Bandhan's interest to disclose the data. It would look better from an environmental standpoint and the true and potentially lower carbon footprint of our portfolio would be revealed.

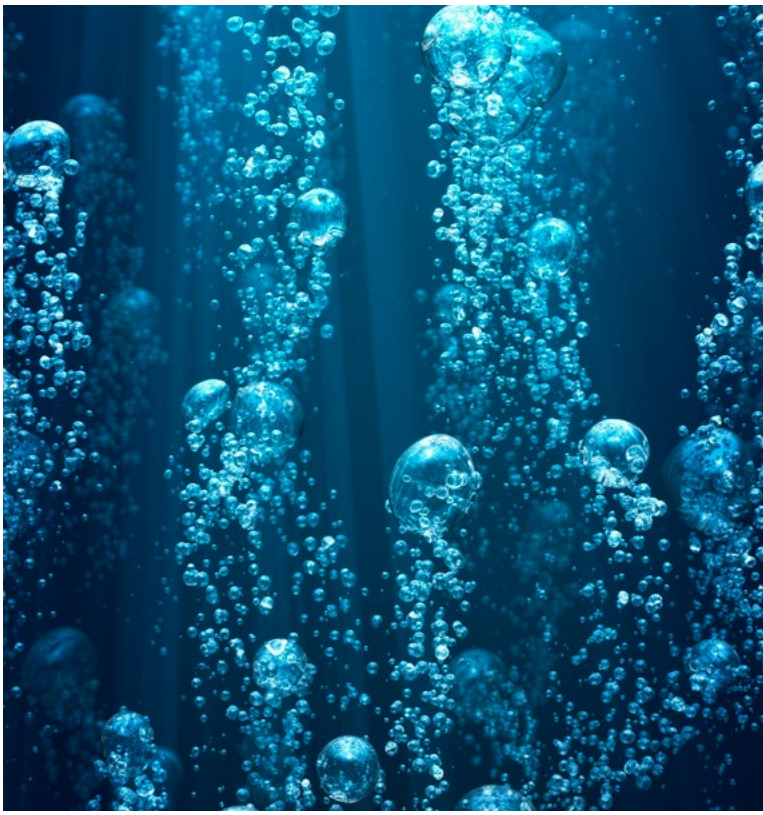
[1] Names are provided for illustration purposes only and should not be considered as investment or disinvestment recommendations.

[2] Abhijit Vinayak Banerjee, "Microcredit Under the Microscope: What Have We Learned in the Past Two Decades, and What Do We Need to Know?", *Annual Review of Economics*, Vol. 5:487-519

A FOCUS ON CARBON – KEY DEVELOPMENTS

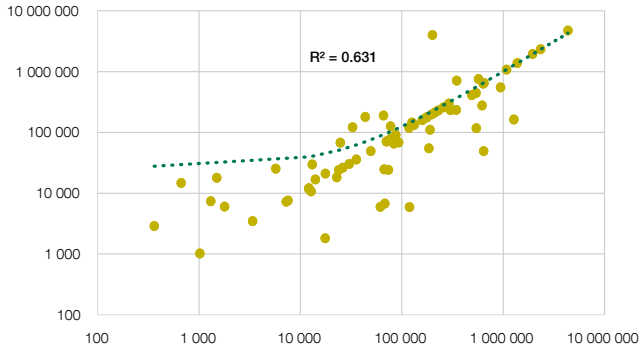
In our last annual impact report, we published detailed carbon emissions data for the UBP impact funds. We also considered the topic of emissions measurement and highlighted the significant difficulties when it came to looking at a particular company's emissions footprint as a whole. As discussed earlier in the Engagement section, if an investor only considers emissions directly produced or directly used by a company – in relation to electricity, for example – there is a risk of understating (or overstating!) the role that company/industry plays in the planet's overall carbon budget. Scope 3 emissions are those that lie outside of a company's direct control but are nevertheless created by that company's activity, for example mining raw materials for your zero-emissions electric car.

Measuring these indirect emissions and assigning them to their true owners remain areas of considerable debate. This concern was highlighted in a research paper published by MSCI in May focusing on the rise of net-zero targets. The authors highlighted that whereas on average 52% of utility companies' emissions fall within Scopes 1 and 2 (because they directly burn fossil fuels to create energy), there is no other industrial sector where direct emissions account for more than 30% of overall emissions. In the case of the financial sector, 99% of emissions fall into Scope 3. Why is this important? Although it is good to see an increasing number of companies setting emissions targets, if these net-zero targets only focus on the emissions for which a company admits responsibility, what MSCI calls the Effective Coverage Ratio (the proportion of a company's total emissions covered by its net-zero target) may end up being very low. MSCI estimates that Scope 3 represents 85% of emissions of the constituents in its World Index (MSCI ACWI).

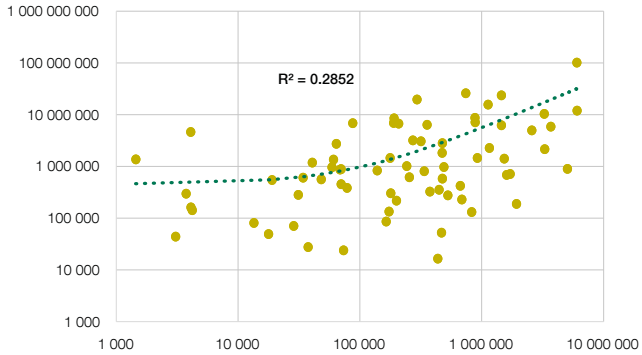


Meanwhile, dealing with Scope 3 emissions presents several challenges. Disclosure needs to improve among our portfolio companies. Only 47% of them disclose some Scope 3 GHG emissions (while 69% do so for Scopes 1 and 2). This average is dragged down by companies from emerging markets, but even if we exclude them, only 58% of companies disclose some Scope 3 emissions. And even this number is too optimistic. It includes any company disclosing any category of Scope 3 emissions. But there are 15 categories, and very few companies disclose all of them. So even among the 58% of companies disclosing some Scope 3 data, there is usually a lot of room for improvement.

SCOPE 1&2 EMISSIONS DATA
FROM 2 DIFFERENT PROVIDERS



SCOPE 3 EMISSIONS DATA
FROM 2 DIFFERENT PROVIDERS



The second difficulty is that estimates of Scope 3 emissions are hard to make in the absence of company data. The charts above show scatter plots of GHG data from two of our data providers in this area. When companies do not disclose, our data providers estimate emissions using proprietary models. This results in a mix of company data (some of them verified) and estimates. As the scatter plots show, the correlation between the two data sets is high for Scopes 1 and 2 (0.8) but much lower for Scope 3 (0.5). It leads to significant differences both at the company level (where 20-fold differences are not rare) and at the portfolio level. For our portfolio companies, the total Scope 3 emissions figure from one of those providers is 450% higher than its competitor's figure. This is a key fact supporting our conviction that investors need far more comprehensive and transparent disclosure of Scope 3 emissions, without which it is difficult to have a rational debate with companies as well as accurately reporting to our investors.

Fit for 55 – Boring (or perhaps not?) but important

On 14 July, the European Commission announced important changes to the EU Emissions Trading System (ETS). The ETS sets a cap on emissions for power and heat generation and energy-intensive industries, including aviation and now shipping. The sectors currently covered by the ETS account for over 40% of the EU's total emissions and coverage will grow over time. Since its introduction in 2005 the industries covered by the ETS cap have reduced emissions by 42.5%, led by power generation.

The new amendments are designed to ensure that the EU meets its target of achieving net emission reductions of 55% by 2030 compared with 1990, hence "Fit for 55". Key measures include the following:

- The annual cap on emissions will be reduced more aggressively by 4.2% per year, compared with 2.2% so far, with the intention to force faster action by increasing the penalty for non-compliance.
- There will be a one-off rebasing of the cap to backdate this annual reduction.
- As well as the inclusion of the shipping industry, a new system will be introduced to cover road transport and heating fuels.
- A new Social Climate Fund will be set up using the anticipated revenues from this new system. With EUR 72.5 bn from the EU and matched funding from member states, this EUR 145 bn fund is intended to subsidise energy transition in transport and housing.
- A Carbon Border Adjustment Mechanism (CBAM) will be introduced from 2026, charging importers of high-carbon goods like steel, aluminium and chemicals for the emissions caused by production. The intention is to stop "carbon leakage" from the EU as industries move production elsewhere.

These new rules could have some interesting consequences for the pricing of carbon and for the funding of EU decarbonisation efforts.

- Carbon currently trades at around EUR 50 per tonne, having risen steadily in price. The changes outlined above are expected to tighten the market further and some analysts predict a rise to over EUR 100.
- This would have a direct impact on the revenues received by member states, which auction carbon allowances to industry as part of the ETS.
- In the current year and at today's prices, member states are expected to accrue revenue of around EUR 20 bn. If the carbon price rises, then so too will this number and the CBAM could generate a further EUR 15 bn per year.

Crucially, EU member states are currently mandated to spend at least 50% of these revenues on climate- and energy-related projects, and in practice they spend around 70%. Under these updated proposals it will be mandatory for them to spend 100%.

In conclusion the Fit for 55 amendments look likely to ensure that funding from the ETS to member states will rise materially and that these revenues will be increasingly targeted towards decarbonisation. This and the Social Climate Fund will substantially increase the spending already announced as part of the Green Deal. It is only a matter of time before other regions adopt similar approaches, creating heavy investment flows behind the fixer technologies championed by impact strategies. In conclusion, investors should be wary of the financial challenges ahead for 'stranded asset' owners.

STRATEGIC INNOVATION

The Launch of the UBP Biodiversity strategy

In parallel with the recently announced UBP Biodiversity Policy, the impact team has introduced several new initiatives to ensure that restoring biodiversity is as central to our thinking as climate change. We are extending our core policy in order to leverage our thematic, impact-driven process. We have also included questions on biodiversity in our Impact Engagement Framework (IEF) to ensure we are tracking corporate progress year-on-year. Probably the most exciting development is the launch of a dedicated Biodiversity strategy. Through this, we aim to invest in solution-providers and engage with supply chains, with the ultimate aim of creating a "nature-positive" approach.

When we read about biodiversity (the variety and abundance of life on earth) and the financial world, the discussion understandably centres around the risks of biodiversity loss and its financial consequences. It is absolutely critical that the value of natural capital is genuinely embedded in our investment decisions, and initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD), the Dasgupta Review on the Economics of Biodiversity, and CISL's Handbook for Nature-related Financial Risks all give a consistent message: the physical, regulatory and transition risk presented by a depleted natural world is truly colossal.

It is easy to despair over such seemingly huge challenges, but we believe that the world's focus on biodiversity restoration provides many exciting investment opportunities – it's not all about risk-mitigation! Sectors such as alternative proteins, regenerative agriculture and the circular economy are all thriving and producing some fascinating investment ideas. Of course, our bilateral engagement expertise – an approach we have developed year after year – provides an unparalleled opportunity to guide companies along the biodiversity curve and improve disclosure on this complex but critically important subject.

UBAM - Europe Sustainable Small Cap Equity

Since it was launched in 2017, UBAM - Europe Sustainable Small Cap Equity has invested in business models delivering sustainable and high-quality growth: companies that have competitive advantages, with strong operational ESG standards and ambitious sustainability strategies, and benefit from enduring secular growth trends in their end markets.

One of the advantages of investing in smaller companies is the market's inherent inefficiency. Very often, a company's business fundamentals can be misunderstood due to low levels of analyst coverage, but we also often find that low levels of ESG research coverage and poor disclosure by smaller companies mean that they do not get sufficient credit for the strong progress they may be making on sustainability.

Our engagement process has enabled us to gain valuable insights about where companies are on their sustainability journey. This proved to be particularly beneficial with **Volution Group**: after early discussions with the executive tasked with the company's materiality assessment and implementation of their first sustainability strategy report, we were able to gain a solid understanding of a topic that had not been well articulated by the management team previously. Volution Group's products (heat recovery and ventilation units) already benefit from strong regulatory growth drivers and are designed with energy efficiency in mind, but the company has received greater attention from the market following the publication of its sustainability strategy in September 2020, and has been a strong contributor to our returns. We firmly believe that, whereas sustainability within the small-cap world was often ignored in the past, people are now quickly catching up in terms of the opportunity it represents.

For more details about responsible investing and sustainability at UBP and to make contact with our experts, please visit www.ubp.com and follow us on Instagram **@ubp.impact**

WHAT WE'RE READING, WATCHING AND LISTENING TO

CISL WORKING PAPER – UNLEASHING THE SUSTAINABLE BUSINESS

Download the paper

How purposeful organisations can break free of business-as-usual: Dr Victoria Hurth and Dr Aris Vrettos examine the difficult topic of achieving prosperity in both an equitable and long-term way. First of a number of working papers on this important topic.

THE GOOD BEE: A CELEBRATION OF BEES – AND HOW TO SAVE THEM

By Alison Benjamin and Brian McCallum

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Inspiration on healthy eating, regenerative farming and organic food, biodiversity, animal welfare and much more.

ACCOUNTABLE

By Michael O'Leary and Warren Valdmanis

Unsurprisingly this is not the Michael O'Leary, CEO of Europe's leading low-cost airline, but instead one of the directors at Engine No.1, the hedge fund that has risen to prominence for scoring a memorable victory against Exxon Mobil this year. Co-written with his ex-Bain Social Impact fund colleague, Warren Valdmanis.

THE NEW CLIMATE WAR – THE FIGHT TO TAKE BACK OUR PLANET

By Michael E. Mann

ETHICAL CONSUMER WEEKLY NEWSLETTER

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www.ethicalconsumer.org

ENVIRONMENTAL TORCHBEARER

Lewis Pugh's latest swim attempt.

lewispughfoundation.org/greenland-swim-2021

GEORGE THE POET'S RECENT PODCAST

Listen to the podcast

In the words of one member of the team "it's the most illuminating thing I have listened to this year". George talks about being black in the UK, the value of his education, growing up in a difficult neighbourhood in North-West London. Beware: strong language.

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