

Impact Advisory Board (IAB)

Minutes of the meeting

Summarised version of the official minutes

Date: Monday, 7 March 2022

Place: Seymour House and via Webex

Attendees

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

Guests: Charlie Anniss (CA), Adrien Cambonie (AC), Victoria Leggett (VL), Eli Koen (EK), Mathieu Nègre (MN), Tidjan Ciss (TC)

Secretary: Robert Wibberley (RW)

Introduction

AdP welcomed the Board members.

The minutes of the November 2021 meeting were approved without amendments.

Nuclear energy

Given the current geopolitical situation and ongoing concerns over energy security; the global urgency to decarbonise; and the EU Commission's recent Taxonomy Complementary Climate Delegated Act presenting nuclear activities as being in line with the EU's climate and environmental objectives, the Board members were asked to opine on the role of nuclear energy.

Echoing the subject's complexities, the Board members offered differing views:

- On one side, it was deemed that nuclear energy was probably not required as part of the energy mix, or at least not yet.
 - ▶ Arguments proffered included: nuclear waste; accident risk; nuclear weapons (historically); expense; delivery time.
 - ▶ The most immediate way to adapt would be to target energy efficiency and increase overall awareness.

- ▶ Investments need to be directed to electrical storage/batteries – which come with their own concerns and risks.
- On the other side, it was noted that
 - ▶ The current increase in renewables was offsetting only the increase in energy demand, and therefore without nuclear it would be very difficult to curb overall emissions. Nuclear should therefore be part of the energy mix and there is a need to increase research and innovate drastically.
 - ▶ The geopolitical situation around energy security was critical, but it should not result in future exploitation of alternative sources of fossil fuels, such as fracking.
 - ▶ The narrative around nuclear energy differs across regions/countries.
- The Board came to no agreement, reflecting the investment team's own internal conversation. That said, given the Febelfin "Towards Sustainability" Label's requirements, exposure to nuclear energy was very low across UBP's impact franchise.

Engagement – thoughts, lessons and case studies

Engagement has been of ever-increasing salience within UBP's impact investment process, seen as a key lever of

Additionality within the listed-equities universe. Accordingly, as requested by the Board in the November 2021 meeting, the Impact Investment team presented case studies of both “successful” and “unsuccessful” engagements.

■ **Case study 1: Taiwan health food company**

The first case study detailed how the investment team was unable to engage with a Taiwanese health food company even though it tried many – some innovative – avenues. eighteen months of no success triggered divestment.

- ▶ The position had been entered at the launch of UBAM - Positive Impact Emerging Equity, with the team fully aware of the company’s engagement reputation.
- ▶ The team had been hopeful that a dialogue could nevertheless be established.
- ▶ Lessons learnt: in future, the willingness to engage will be more fully analysed prior to purchase. However, the team remain mindful of not wanting to invest only in good engagers, as the Additionality may be more substantial with less good engagers.

■ **Case study 2: Companies/ESG rating agencies**

The investment team highlighted how ESG-rating agencies, which wield significant power vis-à-vis sustainable investing, sometimes make factual errors that penalise (potential) investee companies.

- ▶ As part of the fundamental research, and cross-checking against ESG research, the team has identified factual errors on four occasions.
- ▶ In such situations the team has entered into dialogues with both companies and ESG rating agencies.
- ▶ Success has been varied, depending on the source of the error, subject and agency.
- ▶ The Board remarked on the growing influence of the rating agencies, the differing approaches to ratings, and a lack of transparency.
- ▶ The Board enquired as to whether collaborating with other investors was a potential way forward.
- ▶ The Board noted that ESMA had called for more transparency on the methodology for assessing climate risks.

■ **ESG scoring framework**

Discussion revolved around how to best capture the Additionality of the investment team’s engagement. Suggestions included:

- ▶ Integrating an engagement score into the IMAP score, and having a separate additional engagement score
- ▶ Engagements’ influence on the IMAP score should be monitored over time.

The Board highlighted the innate difficulties of isolating the influence of UBP’s engagement versus third parties’ engagement and other external factors.

The Investment team undertook to investigate further.

Review of first Biodiversity Committee meeting

TJ gave the Board a brief summary of the Biodiversity Committee’s meeting held on 17 January 2022. Topics covered included:

- Partner NGOs’ contributions
- Structure around the Protect and Restore theme
- Pros and cons of investing in companies with poorer biodiversity track records, but where the potential to make change might be larger
- Narrative: how to bring in a story, including iconic species
- Engagement and information flow between the various stakeholders.

Fund review: UBAM - Biodiversity Restoration (BRF)

CA presented BRF to the Board. As it was the inaugural presentation since launch, CA explained the structuring between Protect and Restore and Diversification by verticals, sectors, countries and market caps.

The fund was launched into performance headwinds, resulting in a rebalancing to position the fund more pragmatically in the prevailing markets.

The Board was generally encouraged by the names in the portfolio from an impact perspective.

Fund review: UBAM - Positive Impact Equity (PIE)

VL presented PIE to the Board, noting that the fund aimed to address the SDGs and as such did not replicate any GICS sector weightings. This would normally not be a problem as regards performance, but recent markets have been difficult, with the fund having no/low exposure to strong performers, such as oil, tobacco and banks, while the high exposure to industrials has been hit by supply-chain issues and crunches. As such, the team have adjusted the portfolio to be more “GICS aware” although the team is conscious of not diluting the fund’s impact DNA.

The long-term story for impact is stronger now than it was six months ago (due, among other things, to derating, the Ukraine situation and energy security) and has a structural tailwind, but there is near-term noise, including profit taking and geopolitical tensions.

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

EK presented PIEE to the Board, noting that there was no direct exposure to Russia or Ukraine, although there was a minimal indirect exposure which has been reduced further.

EK then presented the thematic exposure, entries and exits, the top ten and performance, stating that, although relative ytd performance was negative, the fund was doing reasonably well against its peers and continued to attract inflows.

The Board discussed the merits of investing in rare earth metals and minerals, observing that, although some were essential for a sustainable transition, they are accompanied by significant ESG concerns.

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. Beyond Meat (BM) (IMAP: 3, 4, 4, 4 = 15)

US-based BM is a leading and the fastest-growing manufacturer of plant-based meat alternatives.

The Board was generally favourable to the impact credentials of BM. That said, the Board flagged that BM could not rest on the laurels of “meat is bad therefore we are good” without providing targets or transparency around their own sustainability agenda, particularly as regards agricultural practices, as this would eventually catch up with them.

The Board also enquired about the negative ESG rating from one rating agency. The Impact Investment team had liaised with the agency who informed them that this was more an industry rating associated with the length of the supply chain rather than BM-specific.

The Board recommended keeping the score at 15.

2. Pennon (IMAP: 3, 3, 4, 2 = 12)

Pennon is a UK water utility company.

The Board asked how Pennon was localising their stakeholder community, interacting with trade associations, what their high-category pollution issues were, what the ambitions of Pennon’s nature-based solutions were, and what its biodiversity metrics were. The Board concluded that Pennon could do more.

VL noted that, although Pennon was not the strongest stock impact-wise (12 being the minimum threshold for inclusion in the fund), it was a company with significant engagement potential.

The Board recommended keeping the score at 12.

3. Pinduoduo (PDD) (IMAP: 3, 1, 3, 5 = 12)

Launched in 2015, Pinduoduo (PDD) is a Chinese browsing- and discovery-based customer-to-manufacturer e-commerce platform that pioneered the innovative “team purchase” model as an effective and efficient tool for buyer acquisition and engagement, particularly in the agriculture category.

The Board raised concerns about to whether PDD’s business model is ultimately bettering the livelihood of rural farmers, as this would be the key impact proposition. The Board asked the team to investigate KPIs on this.

MN noted that PDD is a pioneer in getting lower prices for consumers and increasing wages for farmers. In addition, PDD also has a head of sustainability – rare in China – and offers an opportunity to engage.

The Board recommended keeping the score at 12.

4. China Education Group (CE) (IMAP: 3, 5, 3, 3 = 14)

CE is one of the leading private higher and vocational education providers in China.

The Board enquired as to whether sustainability was integrated into CE’s syllabus (was it taught and incorporated into facilities?) and whether equality and diversity were addressed.

MN replied that on the facilities front, the IFC was one of CE’s shareholders and collaborated on projects. CE also had market-leading emission-reduction targets for waste and energy.

There are also statistics on access to education, including by gender, region, and employment rates and salaries after graduation, indicating that it is not elitist.

MN agreed more data was required on the teaching of sustainability.

The Board recommended reducing Additionality from 3 to 2.

5. Infinenon

Infinenon was addressed in a subsequent written follow-up.

Conclusion

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

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