

Impact Advisory Board (IAB)

Minutes of the meeting

Summarised version of the official minutes

Date: Monday, 27 June 2022

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: Adrien Cambonie (AC), Özgür Göker (OG), Eli Koen (EK), Victoria Leggett (VL), Mathieu Nègre (MN), Rupert Welchman (RW)

Secretary: Robert Wibberley (RWY)

Introduction

AdP welcomed the Board members.

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

Fund review: UBAM - Biodiversity Restoration (BRF)

VL presented BRF to the Board. The fund is still facing headwinds; however, the Impact Investment team is relatively content with how its performance has held up against its peers.

Awareness about biodiversity is rising; however, investors are currently preoccupied with short-term performance, pushing other considerations down the agenda.

The Board agreed that more communication was required to highlight the differentiating points of the fund.

Fund review: UBAM - Positive Impact Equity (PIE)

RW presented PIE to the Board. It has been a difficult year in terms of performance, with only the energy sector delivering positive returns within the MSCI. The Impact Investment team has made adjustments, lowering the fund's valuation premium and keeping the debt-to-equity ratio

significantly lower than the market average in order to better deal with the economic environment.

Thematically, the portfolio has increased its exposure to the Inclusive & Fair Economies and Healthy Ecosystems themes, while reducing exposure to Climate Stability and Sustainable Communities.

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

EK presented PIEE to the Board. The Impact Investment team have adjusted the portfolio to a lower premium compared with its benchmark and have also significantly reduced its leverage.

Geographically, exposure to China has been reduced by decreasing the Renewable Energy Equipment weighting.

The exposure to the Climate Stability theme has been significantly reduced, as the team believed valuations were not sustainable. Proceeds were reinvested in Basic Needs, Health & Well-Being, and Inclusive & Fair Economies. Overall, the portfolio is now more diversified.

The Board discussed the difficulty of investing in Healthy Ecosystems, noting that attracting finance into this sector was an issue for both private markets and NGOs. A public/private solution is required to bring in finance.

Impact Report 2021

VL presented the Impact Report 2021. Key points included:

- It is shorter than the 2020 report.
- There is a greater focus on engagement, both multilateral and bilateral.
- The “to-do list” also has an emphasis on engagement, as well as on biodiversity, comprising:
 - ▶ Participation in the CDP’s “non-disclosure” campaign
 - ▶ The Biodiversity Committee
 - ▶ Engagement scoring
 - ▶ Targeted engagement projects
- The Board discussed whether the Impact Investment team’s engagements should be more targeted, and how to make them a point of differentiation. Ideas included:
 - ▶ Remaining relatively focused, i.e. on biodiversity and its effects on society, but to also follow the philosophy of, “do no significant harm”.
 - ▶ Use engagement to have KPIs show how sustainable strategies are being implemented with robust measuring and the avoidance of greenwashing.
 - ▶ Collaboration and communication – there is no “best practice” in sustainability; different stakeholders (including peers) should be brought into the discussion, thus creating a virtuous ecosystem.

Investor additionality/engagement score

Continuing on from previous IABs, the Board discussed whether a company’s engagement should be scored, and then if the Impact Investment team’s Additionality from engagement could be measured.

It was generally agreed to not apply an engagement score as it was deemed that the definition of “good engagement” is too heterogeneous. i.e. a company may be very open to communicating and discussing, but that does not mean that the engagement is effective or, even if it is effective, that it leads to any significant impact.

As regards Additionality, the discussion revolved around:

- How to untangle the Additionality of UBP’s engagement from other variables.
- Whether targeting, e.g. five companies with measurable engagements would yield more tangible results.
- Whether asking companies to provide evidence of implementation could act as a proxy for collating impact-output KPIs; if companies were serious about change this should be evidenced.
- Does UBP’s Additionality actually matter if the company’s direction of travel is towards sustainability?

- ▶ If so, UBP’s Additionality does matter, as investor contribution is one of the norms of impact management (<https://impactfrontiers.org/norms/>).

Review of the second Biodiversity Committee meeting

TJ gave the Board a brief summary of the Biodiversity Committee’s meeting held on 6 May 2022. Topics covered included:

- Convening stakeholders (companies and NGOs) and communication.
- Performance discussions on supply-chain stresses and inflation, as well as how this might also feed into the circular economy and sustainable food production.
- KPIs: biodiversity’s complexity compared with carbon.
- Workshops: the food system, and forests and plantations.
- Engagement and escalation.
- Mushroom cultivation: learning between different portfolio companies.

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

RW presented the Board with the Impact Investment team’s “Financial Stewardship Framework”. The objective was to provide a systematic framework for identifying financial stewardship firms, i.e. firms in control of large portfolios of assets, such as insurers or banks, that are making the greatest contribution to sustainability goals.

As such firms tend to have highly diversified portfolios, the Impact Investment team has decided to focus on how these firms are addressing CO₂ emissions, in particular Scope 3.

A two-step approach has been developed:

- **Stage 1:** identify leadership candidate criteria based on best practice, e.g. medium-term targets and sustainable remuneration links.
- **Stage 2:** exercise and evidence Additionality through engagement.

Based on this approach, NatWest has been identified and invested in, given its large emission portfolio and 50% reduction target by 2030, i.e. reduction at scale.

The Board discussed the impact merits of having such companies in the portfolio and what Additionality UBP could bring to large-cap financial institutions. The Board recognised that the sector was tightly interconnected with all other sectors of the economy and government. The “net zero” movement in finance has only just begun, and UBP’s engagement could effectively nudge the Scope 3

conversation up the agenda. Such companies tend to be quite receptive to this.

The Board also discussed:

- The risk of greenwashing and the need for evidence.
- The lack of ambition across the sector and thus the fact that there is plenty of room for engagement, defining roadmaps and identifying KPIs.

The Board recommended keeping the score at 12.

2. Deere & Co (IMAP: 3, 3, 3, 4 = 13)

Deere & Co is a manufacturer of agricultural and forestry equipment for commercial and private customers.

The Board enquired about:

- Areas of engagement.
- The “S” of ESG linked to automation of equipment.
- The overall Materiality of the impact.

In addition, Deere & Co's Potential score was questioned, given that the company appears to be reacting to a trend rather than being positioned as a sustainable leader; the company appeared to the Board neither revolutionary nor ambitious enough (the Impact Investment team felt this was slightly unfair on the company). Deere & Co could help farmers along the sustainability curve.

The Board recommended reducing the Potential score to 3 resulting in an overall IMAP Score of 12.

3. CEMIG (IMAP: 4, 5, 3, 2 = 13)

CEMIG is the leading energy generation and distribution company in Brazil with a current focus on renewables; it also shows awareness of the damage caused by hydroelectricity vis-à-vis biodiversity.

The Board debated the future of hydroelectricity. On the one hand there has been much research undertaken on how to make hydroelectricity more sustainable; on the other, in some areas hydroelectricity was at risk of becoming a stranded asset – that being more sustainable is not necessarily sustainable in itself – and the question was posed as to whether CEMIG was considering removing dams.

The Board recommended reducing Materiality to 4 because: only 10% of CEMIG's business came from generating electricity, the rest came from distribution; distributed electricity is also generated using gas; CEMIG is a holding company for 152 companies with little transparency on their operations.

It was also suggested that Potential could be increased as CEMIG is a sizeable state company with a large opportunity set.

The Board recommended reducing the Materiality score to 4 and Potential to 3.

4. Swire Properties

5. Weyerhaeuser

As the IAB meeting had run over its allotted three hours, it was decided to address these two companies at the next IAB.

Conclusion

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

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