

IMPACT ADVISORY BOARD (IAB)

Minutes of the meeting

Summarised version of the official minutes

Date: Wednesday, 25 November 2020

Place: Seymour House and via Webex due to COVID-19

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: Victoria Leggett (VL), Adrien Cambonie (AC), Nicolas Faller (NF), Eli Koen (EK), Mathieu Negre (MN) and Rupert Welchman (RW)

Secretary: Robert Wibberley (RWY)

Introduction

AdP welcomed the Board Members and introduced: Bastien Sachet, CEO of Earthworm (<https://www.earthworm.org/>) as the fourth Independent Member of the IAB; Robert Wibberley, UBP, newly appointed Secretary to the IAB; Nicolas Faller, Co-CEO of UBP's Asset Management division and Chair of UBP's Sustainability Board.

The minutes from the June 2020 meeting were approved without amendments.

Follow-up point on companies from IAB June 2020

The Board ran through the follow-up points from the previous meeting.

An update was circulated prior to the meeting about Kingspan's involvement with Grenfell Tower, which had already caused the managers to reduce exposure to the company. The Board felt a final decision should wait until the enquiry was in the public domain and that obviously this situation needed to be watched carefully.

Prior to meeting, EK circulated a document on LONGi Green's recycling provisions and Intentionality score. JR highlighted the different cultural stress on compliance in China, with LONGi Green's aspiration to remain compliant with the Chinese government. At some point the Board needs to consider whether mere compliance is enough. KM was open to increasing LONGi Green's score due to the Intentionality shown by its CSR report.

This led to a general conversation on Intentionality, with TJ noting the distinction between companies whose missions are driven by societal/environmental outcomes and those which are driven primarily by commercial needs, with many companies being closely aligned with the SDGs but constrained by commercial demand.

Impact Engagement Framework (IEF)

RW spoke about how a few sections of the IEF had been reworked to integrate the Board's June 2020 comments, including: Section 7) Policy on biodiversity and the natural world; BS suggested that scoring options here should be i) Policy + Implementation, ii) Policy but no implementation, and iii) No policy; Section 9) Diversity – within the company, board, and suppliers.

Board Members also felt more emphasis was needed on promoting sustainability throughout a company. The Impact Team agreed to address this more fully in Section (1) of the IEF.

JR asked whether at some point the Impact Platform should demand a minimum performance floor of climate disclosures. RW replied by highlighting the differences between large and small companies on disclosure, and that the IEF is conceived as being able to become more stringent over time and with the development and growth of an individual company.

SDG 16

VL confirmed, as discussed at the IAB meeting in June 2020, that the Platform's approach to SDG 16 would be rephrased from "Charitable Donations" to "Investments with non-financial returns" and circulated an PDF example.

This transitioned into a wider discussion on what these investments should address, with KM highlighting the importance of needing to address the key issues of the day, such as inclusion, inequality, immigration, empowerment and gender inequality (COVID-19 having set gender equality back some 10 years). VL agreed that the SDG 16 investments were for areas that could not be addressed via direct investment and that the remit could be broadened to include, for example, SDGs 14 and 15.

Other Board Members contributed, noting that the SDGs will be solved through partnerships between governments, private companies and not-for-profit institutions, and that SDGs needed to be treated as a whole and not individually.

Biodiversity

Continuing on this theme, the Board discussed SDGs 14 and 15, i.e. biodiversity, in depth. The Impact Platform sits on the Investment Leaders Group's committee for biodiversity and is planning to implement a biodiversity policy.

TJ, BS and JR all agreed that biodiversity is of the highest importance and endorsed this initiative, noting that they were not aware of other investors doing this. However, they also underlined that, unlike for CO₂, no simple measures exist, with, for example, the majority of species not having yet been identified, let alone having had their populations measured and monitored. Therefore, viable proxies are needed, such as deforestation and soil health.

In addition, the Board raised the view that biodiversity needs to be addressed along the whole value chain, with the question being asked as to whether a business is leading to a net positive effect on biodiversity over a life cycle. The Impact Platform should aim higher than "doing no harm", and look to restoring biodiversity.

Engagement

A general conversation was started about measuring the impact of Engagement, noting that it was almost impossible to measure the effect of Engagement on a company's share price. Options were discussed, including collaborating with peers as well as with top ten shareholders. It was recognised that this is a complex topic; with individual investors often lacking influence and therefore requiring collaboration with other shareholders, a strategy corroborated by a Cambridge Institute of Sustainable Leadership (CISL) research paper, "Coordinated engagements".

Sustainability at UBP

As a prelude, both SB and JR gave examples of how integrating sustainability throughout a company generates internal credibility.

AdP invited NF, Co-CEO of UBP's Asset Management division and Chair of UBP's Sustainability Board, as well as senior sponsor for the CISL, to elaborate on how UBP is currently putting its sustainability framework into place.

NF described how the Bank's ExCo had discussed how it was in the Bank's DNA to be sustainable and its need to set targets. There are many steps required to promote sustainability, requiring both in-house and external communication. The Impact Platform is a key part of the future for UBP. NF promised to circulate UBP's sustainability induction paper and discussed the planning of a public-facing report in 2021.

Update: UBAM - Positive Impact Equity (PIE)

VL told the meeting that the UBAM - Positive Impact Equity fund is now 2.5 years old and has a holistic approach to the SDGs clustered into the 6 CISL themes. Healthy Ecosystems is the most challenging theme to address, as mentioned above.

Questioned by KM, VL explained the exposure to Kenya in a "developed market" fund, as the team were looking for the best solutions to the SDGs and if a superior company was found in the emerging markets, they would willingly invest in it. The fund's financial performance had decoupled positively from certain indices (such as the MSCI ACWI and the MSCI Europe) since the onset of COVID-19, illustrating the uniqueness of the companies that are owned. KM questioned whether an Impact benchmark could be developed with peers.

The Board was pleased with the fund's performance and encouraged UBP to market it fully in order to maintain momentum.

Update: UBAM Positive Impact Emerging Equity (PIEE)

EK presented PIEE to the Board. Its geographical allocation is similar to typical emerging market funds, but its industrial allocation differs significantly, with a large exposure to renewables and none to oil & gas, heavy industrials or traditional banks. The fund has a growth and small/mid-cap bias, reflecting investments in "new" sectors. Its top holdings are mainly in China and Taiwan, reflecting not only Impact potential but also the greater economic uncertainty of COVID-19 on other emerging markets. The fund intends to progressively include more names from other emerging market economies as the pandemic situation stabilises.

Its financial performance since inception has been strong at over 55% (7 May 2020–23 November 2020, in its base CCY, the USD), outperforming the MSCI Emerging Markets index by 16%; its AUM stands at USD 80 million.

IMAP Scoring Presentation

AC presented a case study of the IMAP Scoring Process using Hoffman Green Cement, a producer and distributor of low-carbon cements. AC explained the Impact Team's initial discovery of the company and the subsequent analysis undertaken to give Hoffman the joint highest IMAP score of 18/20: Intentionality 5; Materiality 5; Additionality 4; Potentiality 4. AC also noted that Hoffman was the pilot company for the IEF, an exercise that highlighted the

usefulness of the IEF not only to the Impact Team but also reciprocally to investor companies as part of a framework for developing practices and disclosures. UBP participated in the company's IPO, since when the share price has increased by 25%.

TJ discussed the value chain, especially how Hoffman could liaise with steel companies (whose waste is used in Hoffman's process) to accelerate their sustainable transition. KM recommended incorporating adoption risk in the Additionality score, a risk which was agreed by the Board, even though this was in part negated by plants being commissioned only once volumes had been committed. JR asked whether Hoffman has a "Plan B" for when the steel industry adapts to minimise waste, and asked what Hoffman's plans were for alternatives to cement, given that even green cement has environmental consequences. RW replied that part of the Team's systems thinking is to find micro solutions to macro issues, i.e. Hoffman Cement, a small company which addresses a viable alternative to traditional cement.

Company Reviews

Each member of the Board had been provided with a detailed description, investment case, ESG profile and IMAP scores for each of five companies. RW and EK went through these in detail.

1. Nano-X Imaging

RW explained the investment case for Nano-X Imaging, an Israeli company which develops medical imaging systems to provide cheap access to x-rays in emerging markets. BS noted there were both positives and negatives to sharing images, and questioned whether the company was intentionally solving a medical issue. KM requested that the Impact Team investigate the company's supply chain further. As a general point, JR who felt that "doing no harm" (as aligned with the EU taxonomy) should be part of any analysis and potentially integrated into the IMAP. RW noted that access to Nano-X management is good and will give an update at the next Board meeting.

The Board agreed with the IMAP score of 17.

2. Zhengzhou Yutong Bus

EK set out the investment case for Zhengzhou Yutong Bus, a Chinese company that engages in the research, development, manufacture, and sale of bus products,

including "new energy vehicles" or "NEVs". The rather low IMAP score of 12 reflects a range of issues, in particular about disclosure.

BM and TJ highlighted issues associated with the value chain, e.g. sourcing of minerals for batteries and electricity sources, which need to come from the circular and not linear economy. This brought the discussion back to the earlier points made about cultural differences in terms of disclosure and engagement focus. KM requested for the next Board meeting a review of how transparent and open to questions different markets were. JR enquired about the impact of COVID-19 and digital mobility as regards bus use, to which EK replied that mobility numbers are already picking up in China.

The Board agreed with the IMAP score of 12.

3. Voltronic

JR, TR and BS provided feedback focusing on the need to set and monitor net-zero emissions targets and requested further information on the value chain and product circularity in both production and use, as well as material sourcing.

The Board agreed to confirm the IMAP score at the next meeting.

4. DS Smith

The Board was generally appreciative of company's contribution to the circular economy. JR, BS and TJ all thought that DS Smith could do even more, e.g. phase out plastic use altogether and push for 100% recycled content, as well strategically pushing the circular economy.

KM questioned the company's small exposure to the tobacco industry via packaging, reiterating the "doing no harm" theme. Similarly, BS questioned the company's promotion of social/human rights throughout its value chain.

The Board agreed to confirm the IMAP score at the next meeting.

Conclusion

There being no other business, AdP thanked everyone present for their time and great insights, and congratulated the investment team on their good performance.

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