UBAM – BIODIVERSITY RESTORATION

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
Fund classification under Sustainable Financial Disclosure Regulation (SFDR): Article 9

Market Comment

- Stock markets recorded broad gains over the first quarter of 2023, with the MSCI ACWI* climbing 7.31% over the period, but not without considerable volatility along the way as January started off very strong on the back of China re-opening optimism, while February saw increasing concern about further rate hikes as a result of very strong economic activity and higher than expected inflation figures. However, a sudden bank run at a regional US bank at the beginning of March quickly spread apprehension in the financial sector globally, completely shifting the market outlook for interest rates in the process and sending the markets into panic for two weeks. Fortunately, coordinated efforts by regulators and banks helped alleviate fears of a domino effect and prompted a rebound that extended through to the end of the quarter.

- The Fed's governors still decided to increase the Fed funds rate by a further 25 basis points in March, taking the benchmark fed funds rate to a target range between 4.75%-5%, although they also suggested that the cycle of rate hikes is coming to an end.

- Sectors that are negatively exposed to interest rate sensitivities and that sit firmly in the growth investing bucket such as information technology, communication services and consumer discretionary outperformed significantly in the first quarter, with the MSCI World Growth index* up 15.10% over the period. Whereas inversely, defensive sectors such as energy, health care, utilities and financials clearly underperformed and the MSCI World Value index* closed the quarter up 0.92%. In terms of size, small caps outperformed their large caps counterparts for most of the quarter on better optimism but significantly underperformed in the face of panic.

- In terms of region, Europe had the best performance with the MSCI Europe* returning close to 8.61% over the period, while the S&P 500* as a US proxy was up 7.36% and the MSCI EM* was up only 3.96%. US dollar weakness helped Europe and emerging markets alike gain some ground at the beginning of the quarter, but Europe solidified its lead when geopolitical tensions between the US and China resulted in a pullback in the Chinese tech rally.

- In terms of sustainability regulation developments, the European Commission released a communication that outlines the actions that the Commission intends to take to stimulate investment in the "net-zero industry" within the EU. The Communication is a response to recent increases in state support outside the EU, most notably the US' Inflation Reduction Act (IRA). Some may argue the IRA framework is wider and easier to access and navigate, but the implementation of this plan will certainly make the EU an attractive market for investors in the energy transition.

** net total return index*

Sources: UBP, Bloomberg Finance LP.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- During the first quarter of 2023, developed markets experienced stronger-than-expected economic growth despite challenges in the global geopolitical and financial landscape. The rebound in the composite purchasing managers' index (PMI) business survey since the beginning of the year, along with lower energy prices and the reopening of China contributed to improved business sentiment. This resulted in strong returns for equities over Q1, as the MSCI ACWI index (net total return) returned +7.31% during the quarter while the UBAM Biodiversity Restoration portfolio returned +4.25% (net of fees, IC EUR class).

- The improved economic indicators, particularly in Europe, lead to a reassessment of prospects and a positive outlook for growth. This, combined with the belief that rates would soon peak, led to investors favouring long duration growth stocks and crypto currencies for the first couple months of the year. Then, there was a market leadership switch in March with large caps and technology stocks showing strong performance while sectors like Financials, Energy and Healthcare retreated.

- This resulted in a reversal of style performance versus 2022: MSCI ACWI Growth (net return EUR) returned +13.78% for the first quarter, versus +1.24% for MSCI ACWI Value (net return EUR). Despite a balanced positioning between defensive sectors and quality growth companies, the fund’s performance reflects the shortfall caused by pockets of the market which cannot be owned in Positive Impact strategies. Indeed, the Information Technology sector led the market and returned +20.50% in Q1, but this remains an area with very few genuine impact stocks. Equally, the Consumer Discretionary sector increased by +14.22%. On the flip side, more represented sectors like Industrials and Materials were up single digit percentage points, while Utilities even displayed a small negative return.

- The 5 biggest relative contributors for the first quarter of 2023 were Stantec (21.95% absolute return, infrastructure engineer and environmental consultant), Clean Harbours (24.62% absolute return, industrial waste management and environmental remediation), Mueller Water (29.93% absolute return, water infrastructure and flow control products), Evoqua (25.49% absolute return, water filtration equipment), and Veolia (20.28% absolute return, water, waste and energy management services).

  More broadly, this reflects the current trends which are supportive of resource efficiency companies. Topics like water quality and water security are gaining importance due to upcoming regulation and infrastructure is supported by the upcoming stimulus packages in a number of geographies.

- The 5 biggest relative detractors for the first quarter of 2023 were Pharma Mar (-29.91% absolute return, marine inspired drugs), Lindsay (-7.20% absolute return, irrigation equipment), Deere (-3.36% absolute return, agricultural machinery), Agco (-2.55% absolute return, agricultural machinery), and Darling Ingredients (-6.76% absolute return, recycler of natural materials).

  Thematically, it is clear that agriculture overall has been a weak area for the portfolio during Q1. This is due to financing concerns for machinery which may end the cycle earlier than expected, and potential profit taking as the sector was a strong outperformer in 2022. The team is actively managing exposure to the space.

Portfolio activity:

In terms of transaction, the first quarter of the year was marked by two exits and two new additions, while position adjustments continue to reflect disciplined sizing of strong performers and preference for quality growth companies benefitting from structural support and regulation.

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The following positions were disposed of:

- The two exits belong to the consumer staples sector and are both involved with the palm oil supply chain: **United Plantations** and **Sipef**. Although palm oil can be controversial, it is the most consumed oil in the world and presents efficiency benefits relative to alternative oils. Within the space, United Plantations and Sipef were selected for their sustainable practices which are responsible and industry leading – making them serious players in a controversial sector. However, engagement was deemed essential to ensure progress from good-to-great, further stimulate best practice on the supply chain, and assess potential collaboration to steer the overall industry towards better practices.

- **United Plantations** was exited due to the difficulty of interacting with the management team, resulting in unsatisfactory engagement. The stock had also performed well on the back of supportive commodity prices, making it a good exit point.

- **Sipef** was exited after a period of strong outperformance driven by supportive commodity prices. Due to the volatility of commodity prices and better opportunities observed throughout the universe, it was decided to switch the capital elsewhere.

New names:
The additions to the portfolio are Berkeley Group and Gecina – two companies involved with real estate assets.

- **Berkeley Group** is a UK housebuilder. The company focuses on brownfield development and as such has a differentiated business model compared to peers. The company is also a clear leader in biodiversity, having implemented the net gain pledge as early as 2016 and systematically targeting biodiversity improvements, social impact and urban regeneration in its developments. Berkely has an IMAP of 13.

- **Gecina** is a French REIT specialised in the rental of commercial and residential properties. Gecina benefits from very well location assets in the most central areas of Paris and its Central Business District (CBD). Vacancy levels for the company are industry low, reflecting the better positioning and value proposition, and good dynamics of the leasing market in those areas. Gecina also has a high-quality portfolio with a strong balance sheet. The company displays extensive biodiversity initiatives ranging from internal assessments, industry-wide collaborative groups, and ecological network contributions. Gecina has an IMAP of 13.

Notable increases

- **Trane** – the US listed cooling and ventilation leader continues to report a record order book, strengthening regulatory tailwinds, solid earnings dynamic, and lower valuation than historically.

- **Befesa** – position in the steel recycler was increased for the first time in 12 month in light of the improving backdrop: China reopening, improving steel prices, normalising energy prices, and a relative uptrend at the end of 2022.

Notable reductions

- **Agco/Deere/Lindsay** – the three companies make up the bulk of the portfolio's agriculture exposure and all experienced strong performance in 2022 and start of 2023. Positions were reduced to manage exposure to the sector, the concentration to industrials, and to lock in profits.

- **Evoqua** – the position in the water treatment solution provider was reduced after the share price jump caused by the acquisition announcement by Xylem. The managers decided to crystalise some profits, but retain exposure to the future combined entity.

- **GEA Group** – the company reported positive results beating on both top and bottom line, and signalled a positive demand outlook. Due to the rerating and strong performance this led to, the position was reduced as risk management.

- **Mueller** – after publishing an impressive 43% operating beat thanks to strong performance in its Water Management Solutions segment, the team decided to lock in profits and reduce the position in Mueller.

- **Stantec** – the company has been a consistent outperformer displaying accelerating momentum in its Environmental and Infrastructure segments thanks to regulatory support and stimulus package exposure in the US. The position was reduced to lock profits and manage position size.

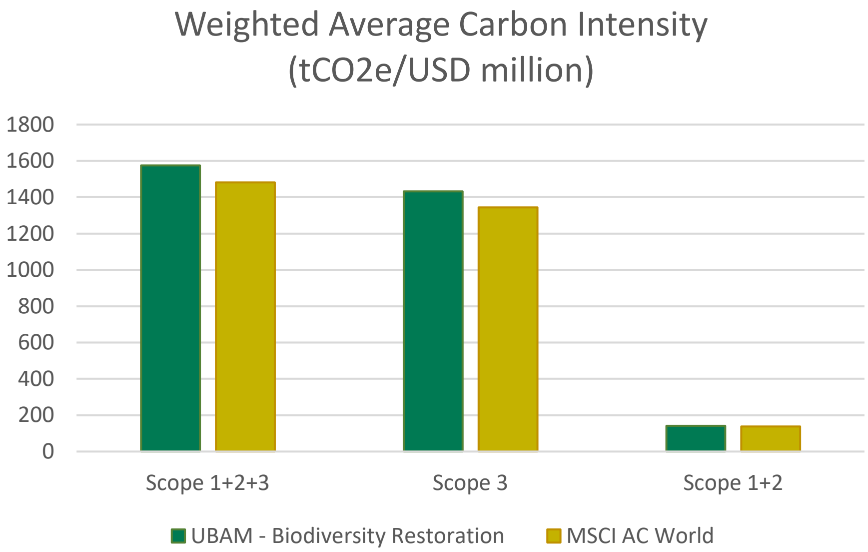
ESG Monitoring

- **Human rights and Social**

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - Biodiversity Restoratior	44	0	0	44	0	0
MSCI AC World	2748	117	22	2743	118	21
UBAM - Biodiversity Restoratior	100%	0%	0%	100%	0%	0%
MSCI AC World	95%	4%	1%	95%	4%	1%

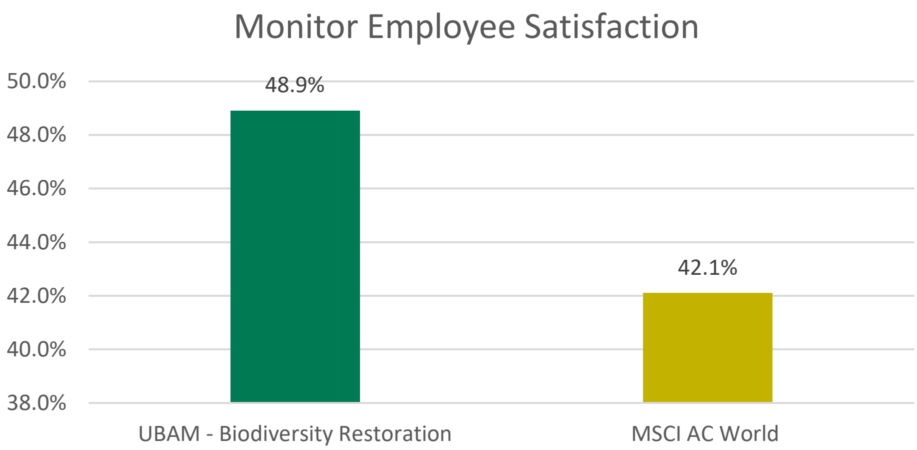
UN GC & Human rights compliance disclosure: Fund 93.6% / Index: 100%

- **Environment**
(Public Disclosure: Fund 63% / Index: 89%, Coverage Including estimates: Fund 100% / Index 100%)

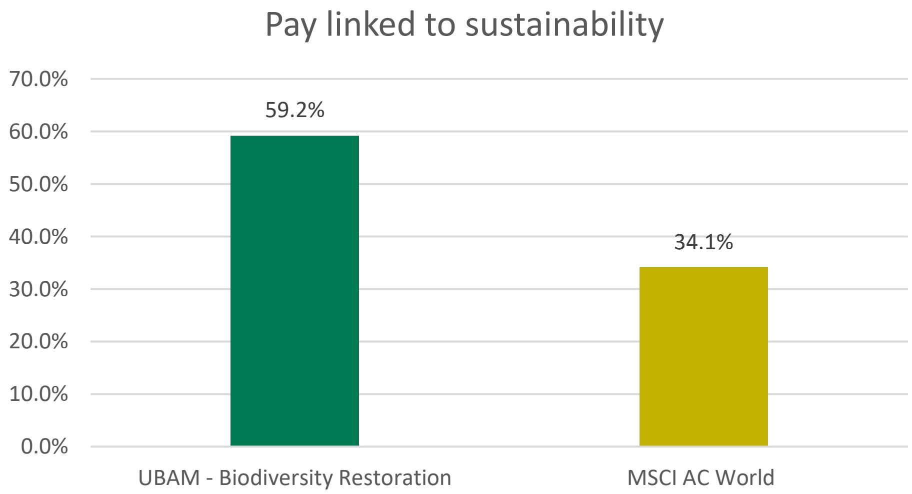


Carbon Intensity metric: UBAM - Positive Impact Emerging Equity aims to beat the benchmark (MSCI Emerging markets) for this metric

Social (Disclosure: Fund 91.5% / Index:99.7%)



- **Governance** (Disclosure: Fund 93.6% / Index: 100%)



Sources: UBP, Based on MSCI ESG Research LLC and Urgentem

Outlook

- Equity markets have begun 2023 in cheerful mood, but March 2023 was a month of divergent returns depending on theme and geography. Investors demonstrated a strong preference for large caps and technology, and leadership proved to be very narrow, for example 88% of the S&P's advance in March was derived from 10 tech names. The switch of market leadership from Value to Growth follows a well-trodden playbook where one period's share price leaders become the next market phase laggards.

- So, what kind of fundamental observations should investors focus on after such a noisy quarter in equity markets? In a recent market outlook, we highlighted that when compared to the first months of 2022, the beginning of 2023 arrived with a much lighter burden of new macro factors to digest. Then came the 2023 banking crisis. Whilst each troubled bank name can be idiosyncratically explained, investors should not pretend that the loss of confidence that accompanied the mini crisis will have no lasting scars. For example, the US money supply is estimated to have contracted by over 5% on an annualised basis in Q1. Whilst this leaves less for central banks to do in terms of rate setting, the outcome of a sharp tightening in money supply is likely to be felt in the real-world economy.

- So far, investor behaviour in response to lower bond yields, driven by the turbulence in developed market banks, has been to buy growth, yet this is in the face of a quarter when profit guidance overall was as poor as at any time since Q1 2015. The market reaction is perhaps too optimistic, favouring more expensive, growth areas of the market and shunning lower multiple sectors. The team remains positioned in both quality-growth and value names, and we remain focused on companies that are capable of internally funding their financing needs via stable profits.

- Sustainability commitments are encouragingly keeping strong form so far this year, with **BNEF** reporting that some 780 companies have set or committed to set a science-based target (SBT) through March, pledging to reduce their emissions in line with the Paris Agreement. This is the fastest start of the year in SBT commitments ever – some 32% higher than commitments at the same time in 2022 (592), showcasing the popularity of SBTs among corporations and more importantly evidencing the increased commitments of companies to move in the right direction and tackle climate change meaningfully.

Sources: UBP, BNEF

Appendix

Methodology

- Global Compact Compliance
  This factor indicates whether the company is in compliance with the United Nations Global Compact principles. The possible values are Fail, Watch List, or Pass.
- Human Rights Compliance
  This factor indicates whether the company is in compliance with the United Nations Guiding Principles for Business and Human Rights. The possible values are Fail, Watch List, or Pass.
- Weighted Average Carbon Intensity
  This figure represents the company's Scope 1 + Scope 2+ Scope 3 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes. This is a weighted average calculated using Urgentem data.
- Labor Compliance - Core
  This factor indicates whether the company is in compliance with the International Labour Organization's fundamental principles. The possible values are Fail, Watch List, or Pass.
- Labor Compliance - Broad
  This factor indicates whether the company is in compliance with the International Labour Organization's broader set of labor standards. The possible values are Fail, Watch List, or Pass.
- Monitors employee satisfaction
  Flagged as "Yes" if company monitors employee satisfaction.
- Pay Linked to Sustainability
  Has the company, if designated as having either a high environmental or social impact, failed to incorporate links to sustainability performance in its current incentive pay policies? Flagged if yes. This metric is based entirely on the company's own reporting, and is strictly focused on the specific inclusion or not of such metrics in the determination of variable pay components and does not take into consideration their effectiveness. High Environmental Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Carbon Emissions, Water Stress, Toxic Emissions & Waste, Product Carbon Footprint, Raw Material Sourcing, Packaging Material & Waste, Electronic Waste, Biodiversity & Land Use, Energy Efficiency. High Social Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Labor Management, Health & Safety, Product Safety & Quality, Supply Chain Labor

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