

# UBAM - POSITIVE IMPACT EQUITY

## Quarterly Comment



For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

### *Sustainability & Market Review*

- The sheer volume of newsflow to digest in the last quarter of 2020 was overpowering. The transition of US presidency may have dominated the headlines however, no less significant, the weekend of December 12th marked the 5th anniversary of the Paris Climate Accord. The 2020 birthday produced some substantive new initiatives in the form of net zero commitments from both India and China. The latter of these two economic giant climate plans will, for example, require a tripling of wind and solar capacity this decade.
- Less globally significant but presented with more detail of how to achieve climate goals was the publication of the UK's Green Reforms, including £12bn of gov't funds, aiming to attract £36bn of private finance and create 250k jobs. Some of the policies included are genuinely world leading for a top 10 global economy including bringing forward the end sale of petrol and diesel cars to 2030 and a significant investment in carbon capture and storage echoing plans published by the EU earlier in the year. All in the UK is aiming now to reduce its CO2 emissions by 68% by 2030 vs a baseline of 1990.
- The unexpected transfer of Senate control to the Democrats makes a more ambitious green agenda possible in the US, although not without ongoing challenges given the lack of a clear majority. Where we may have expected only a symbolic rejoining of the Paris Agreement there is now some prospect that the US focuses on recapturing some sort of leadership of the climate agenda.
- 2020 was a progressive year for stewardship in which pressure on and leadership among large shareholders has started to deliver more urgency among listed companies. The 'say on climate' initiative launched by TCI delivered a first US corporate victory with Moody's agreeing to hold a vote on environmental efforts at its 2021 AGM. Unilever also intends on giving investors a vote on the company's progress on climate-related issues. The net zero agenda is another area of gathering momentum. For example, the New York Pension Fund has adopted a dual strategy of divesting all fossil fuel investments and then pressuring its remaining holdings to commit to a 2040 net zero target. The influence of such an agenda is greatly increased through collaboration among asset owners and managers and the Net Zero Asset Managers initiative launched in December is also important as it involves a commitment among its 30 signatories managing \$9tn to work with asset owners to create a decarbonization plan and an interim goal for 2030. On a note of caution, the risk of superficial commitments remains high, though. The Harvard Law School professor, Lucian, Bebchuk published a report showing that only 2% of the companies that he canvassed as signatories to the Business Roundtable's stakeholder letter in 2019 actually consulted their boards on signing up.
- Finally, asset allocation towards broad ESG funds took a further step forward during the year. An HSBC study quoted by FT shows that of the bank's 10,000 global clients, 78% have environmental target and 72% a social one. Equally significant, 86% of their clients expect sustainability to boost their profits in 2021. It is therefore of little surprise that such an acceptance within finance has seen capital commitments grow substantially, for example, ESG ETF AUMs doubled in 2020 to >\$120bn as institutions look to adopt at scale.



- Following the regional disparities of Q3, the fourth and final quarter of 2020 displayed more homogenous developments, in terms of both performance and Covid19 evolution. Combined with a busy political agenda of unfolding US elections, the finalisation of Brexit negotiations, and widespread continuation of monetary and recovery stimulus, this was an eventful ending to the year.
- On one hand, the pandemic took a turn for the worse as autumn materialised with rapidly rising infection rates in Europe and the US surpassing the previous highs. As the capacity of intensive care units filled up, governments were forced to implement new lockdowns with the hope of slowing down the spread of the virus. This temporarily supported continued outperformance of pandemic winners such as online retail and healthcare.
- Nonetheless, pharmaceutical companies announced early November that their successful vaccine trials. This caused a sharp change of momentum on the equity markets in favour of value sectors such as hotels, airlines, energy and traditional retail which had their best quarter since 2009, rising nearly 16%. Although underperforming for the quarter, their growth counterparts still rose by 13%, allowing them to maintain a significant lead for the year overall (34.2% versus -0.4%).
- Overall, equities were up in all regions during the quarter. The UK FTSE All-Share is the leading index with +12.6% return, followed by the US S&P500 returning 12.2% and the MSCI Europe ex-UK index displaying 10.2% returns. This is not representative of the full year numbers which reflect the regional disparities a lot more: +18.4% for the US S&P500, +2.1% for the MSCI Europe ex-UK and (-9.8%) for the UK FTSE All-Share.
- The US growth stocks which had been important contributors to the country's performance throughout the year were affected by the vaccine news but following a peak of uncertainty the market found comfort in the election results and the prospect of a less confrontational president allowed a strong Q4.
- Overall, the positive performance across the board makes Q4 feel like a better quarter than would have been anticipated 3 months ago. The vaccine news is undoubtedly positive and gives a sense of light at the end of the tunnel, but it must not be ignored that it will take time for countries to roll it out and that the current restrictions and new Covid 19 variants will have an economic impact for the first couple quarters of 2021.
- All indices are total return in local currency, except global ones in US Dollars.



Performance Review

Investment Theme	Average Theme Q4 Performance
Basic Needs	13.68%
Health & Wellbeing	21.98%
Inclusive & Fair Economies	0.06%
Healthy Ecosystems	4.17%
Sustainable Communities	18.21%
Climate Stability	62.47%

- The final quarter of the year built on the strong performance of Q3, with +15.9% return (net of fees, IC EUR class). As in the previous quarter, this compares favourably against the key reference indices for the fund, with MSCI World +9.22%, MSCI ACWI +9.9% and MSCI Europe +10.8% over the same time frame. This results in fund performance of +21.7% for the full year (net of fees, IC EUR class).
- Thematically, Q4 delivered a continuation of the previous quarter, with Climate Stability and Sustainable communities continuing to lead the way. Overall, the environmental themes outperformed the social ones, with the notable exception of healthy ecosystems. The national green recovery packages, referenced in previous reports, have certainly provided visibility and optimism for this segment of the market.
- Indeed, climate names represented 3 of the top 5 performers over the quarter; Ceres Power (UK) +136%, TPI composites (US) +81.5% and Soltec (Spain) +172%. In addition, there was strong performance from other areas of the portfolio, with Arcadis +45% in addition to strong returns from some names in the social side of the fund; Countryside properties +38% and Partners Group +22.6%.
- The negative contributors were in two categories this quarter. First, some of the constituents of the Basic Needs theme appear at the bottom of the performance list simply because the share price has been broadly flat, compared to strong performance in other areas. This is not surprising as this space contains more utility-type companies which are typically representative of social, rather than environmental issues e.g. Christian Hansen (-11%), Bandhan Bank (-7%) and Raisio (+3.5%). The other category is stock specific, with two names disappointing over Q4.
- Kingspan (-19.94%) has been a strong contributor to the fund since inception and year to date, with an exciting impact story and growth prospects. However, Kingspan is involved in the Grenfell Tower enquiry, which is ongoing. There is no question regarding the efficacy of Kingspan's products, but rather their responsibility for ensuring the clarity of message through their distribution channels – that some products are not suitable for high rise towers. The enquiry has raised a number of concerns about Kingspan's communication and response to the disaster and we felt that given the strong performance of the stock, more challenging valuation and unsatisfactory engagement on this issue, it was prudent to exit the position for the time being. Kingspan remains on our watchlist.
- Loop industries (-43.77% Q4) has been a challenging stock to own, as pre revenue companies often are. We have engaged deeply with the company in 2020, however, we took the decision that the company still a long way to go before their recycled PET product would reach commercialisation.

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.



*Portfolio activity:*

- Q4 saw the initiation of Bandhan bank, Ocado Group and Trex.
- Bandhan bank (IMAP 17) is an Indian bank which serves the unbanked and underbanked, with a particular focus (and history) in providing finance to women in rural areas. Although UBAM Positive Impact Equity is predominantly a developed market fund, we occasionally invest in Emerging markets where the SDG case is clear and inaccessible via our typical geographies.
- We initiated a position in Ocado. The stock had sizeable pull-back in the last quarter, which gave us an opportunity to begin a position. The industry leading technology and investment in customer fulfilment centres results in greatly reduced food waste from competitors, in addition to emissions benefits from at home deliveries. 2021 should be an important year for the company with regard to their sustainability commitments and we are keen to see more evidence of commitments on sourcing and consumer behaviour.
- We added a new position in the US listed sustainable building materials group, Trex. The company is the largest supplier of composite decking which competes head to head with sawn timber. Trex is the largest recycler of plastic bags in the US, as this and waste wood from the furniture industry are the two main ingredients for their products.
- Notable sells include 3 complete exits from positions; Kingspan and Loop as discussed above, and Hella. Hella had a place in the fund for its superlative technology in automotive sensors – thus helping to protect both passengers and pedestrians. However, the company has been frustratingly difficult to engage with, and a combination of this and the clear competition for capital in a relatively concentrated fund, led us to exit the position.

*Quarterly Thematic Focus:*

- The UBP Positive Impact investment process focuses on six themes drawn from the UN Sustainable Development Goals. Each theme is further populated by a number of industrial verticals which identify key industries for the successful delivery of those goals. The Climate Stability theme, drawn from SDGs 7 and 13 currently contains four industrial verticals ranging from Renewable Energy Production to Energy Storage and Distribution.
- One area rich in impact ideas is the industrial vertical of Renewable Energy Equipment. Within this area we tend to differentiate between specialist value-added fixers from commodity suppliers, for example the wind turbine blade manufacturer TPI Composites. For the last 18 months we have conducted pre-IPO due diligence on, Soltec, a Spanish supplier into the solar energy generation industry. As a global number 3 in solar photovoltaic trackers, the company's technology improves the yield solar installations can generate by allowing the panels to follow the path of the sun over the day. The efficiency gains provide a meaningful improvement in lowering the cost of solar versus other forms of energy sources. As energy generation is ultimately a cost of capital arbitrage, the advantages offered by solar trackers can help persuade governments to grant larger generation licenses and attract more substantial flows of capital to renewable power generation.
- The Soltec IPO was well received and the shares have risen from under €5 at launch to around €13 at year end, underlining the current market preference for clean energy plays. Indeed, the aggregate performance of the portfolio holdings within the Climate Stability theme was 80.7% for 2020, far exceeding returns for any other theme. Soltec was awarded an IMAP score of 14, scoring strongly on both Materiality and Potential, reflecting the single focus of the enterprise on the solar industry and the significant growth we expect in this market in the coming years.



## Engagement Focus

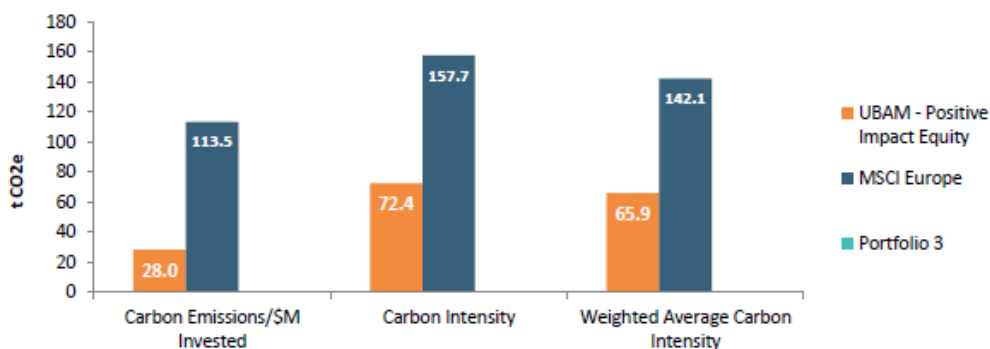
- Chegg is a US listed online education platform, which has a textbook rental business and affordable tutoring service. One of the more compelling impact arguments for Chegg is the affordability of its content, which enables lower income students to 'level the playing field' with those who can afford private tuition.
- We initiated a position in Chegg in Q4, after researching and observing the company for some time. The impact that Chegg makes is undeniable, but the company has historically not communicated on this particularly clearly. In addition, it has limited disclosure on its ESG approach, which results in quite a poor score from external ratings agencies and for our internal Impact Engagement Framework. Therefore, beyond our investigative work, engagement with Chegg took a form which is increasingly common for us with smaller companies; that of guidance with regard to relevant disclosure.
- Many smaller companies have a lean structure and are very focused on their products and services – they often haven't reached the maturity or size to have an experienced and big Investor relations department. As a consequence, even though these businesses may be doing some very good things, they are not reporting on them in the way sustainability investors have come to expect. With our bottom-up engagement approach, we see this as a huge opportunity to generate alpha and to assist the company on its impact journey. Since our initial conversations with Chegg, the company has been upgraded by MSCI ESG to a BB (from B) and have set up a dedicated ESG portal on their website. We will not claim that this was solely due to our influence, but the management team have stated that guidance and support from committed and active shareholders has been an important part of their evolution.

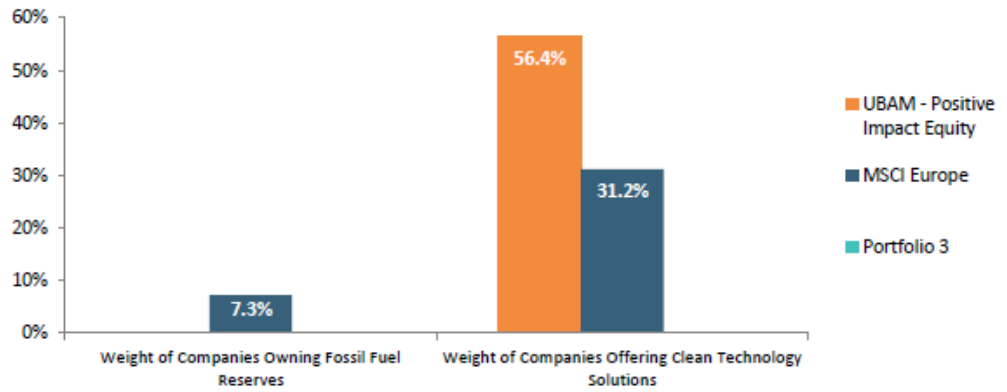
## ESG Monitoring

### ➤ Human rights

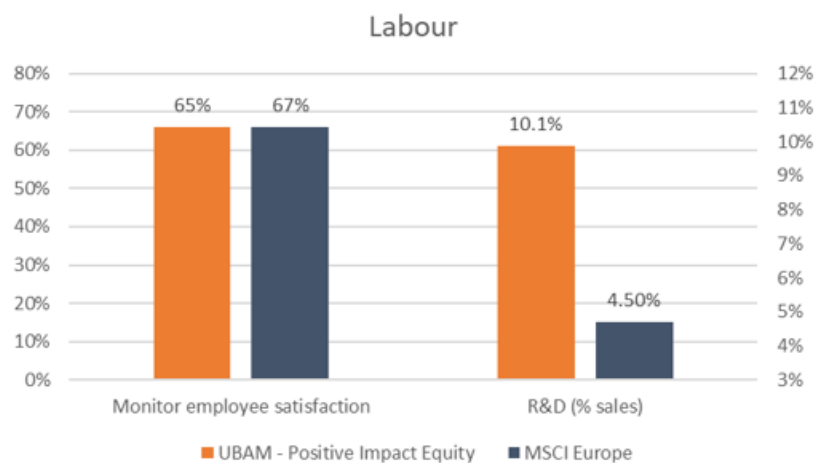
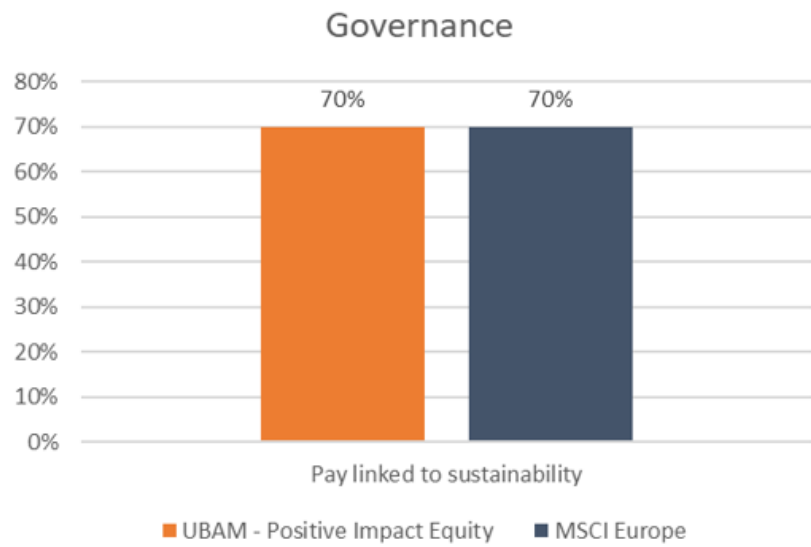
	UN Global Compact			Human Rights Compliance			Labour Compliance - Core			Labour Compliance - Broad		
	Pass	Watch	Fail	Pass	Watch	Fail	Pass	Watch	Fail	Pass	Watch	Fail
UBAM - Positive Impact Equity	35	1	0	35	1	0	36	0	0	36	0	0
MSCI Europe	391	37	8	409	26	1	427	9	0	423	13	0
UBAM - Positive Impact Equity	97%	3%	0%	97%	3%	0%	100%	0%	0%	100%	0%	0%
MSCI Europe	90%	8%	2%	94%	6%	0%	98%	2%	0%	97%	3%	0%

### ➤ Environment





➤ **Governance**





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## Outlook

- It remains uncertain what sort of economic recovery awaits us during 2021, but the outlook shares some similarities to the conditions of 2020. The global economic recovery is likely to have some element of a 'K' shape to it, where some industries enjoy strong growth or in other cases recovery but for others the struggle continues on. Central banks will have to extend their unprecedented support of domestic economies until vaccinations can permit a return to economic normality and probably beyond. The early healthcare successes of containment and now vaccination will broaden out to embrace a longer-lasting societal focus on robust healthcare provision.
- We would also expect several of the nascent changes of 2020 to become economic norms. It has been observed that when a pandemic encounters technology trends, those shifts significantly accelerate. Some of the behavioral changes of 2020 support this, for example remote healthcare versus on site GP visits or online grocery shopping versus in-supermarket shopping. We have witnessed this transition at pace and it is fair to expect the momentum to lead to permanent shifts in everyday life and their accompanying investment trends. Green energy generation has been a key area for investment growth in 2020 and it is rational to expect this to continue in 2021 and beyond. As capital flows to innovations that deliver solutions to climate change the unit costs are driven down and one by one these technologies become cheaper than the incumbent ones despite their years of supremacy and scale. With 84% of the world's energy needs still supplied by fossil fuels, there is significant growth ahead for investors in this environmental transition. A similar path can be identified in many other areas within the SDG framework.

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## Recommended Reads

### Reads:

- **Factfulness** by Hans Rosling – experienced lecturer and TED talker and pioneer of simple graphics to make impactful observations – a strong message that all the in the world is not as bad as the headlines may lead us to believe.
- **Who Cares Wins:** Reasons for Optimism in our Changing World – Lily Cole (former supermodel)
- **Investing to Save the Planet** – Alice Ross – the book offers a practical guide in how every investor not matter how big or small has the power to help build a more sustainable world.
- **Making Money Moral:** How A New Wave of Visionaries Is Linking Purpose and Profit – Judith Rodin and Saadia Madsbjerg (formerly Rockefeller Foundation)

### Podcasts:

- **Field Recordings** – A wonderfully calming and evocative series of recording made by audio-makers around the world capturing the essence of different environments.

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