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

- Over the quarter, equity markets rallied despite an overall unhelpful economic and financial environment. The MSCI ACWI* climbed 6.2% over the period "Sell in May and go away" was not a good advice in 2023, with the Nasdaq recording its best first 6 months since 1983 and the S&P 500 back in a bull market (up 20% from the lows reached in Oct 22). It is difficult to point out the exact reasons why investors continued to pile into risk assets but broadly speaking, investors' worst-case scenarios simply failed to materialise. Perhaps more importantly, the recession that so many economists anticipated, has so far remained out of sight as activity remains strong, especially on the services side.

- In terms of style, growth continued to significantly outperform value, with the MSCI World Growth Index* up 10.4% over the period versus 3.0% for the MSCI World Value Index*. Nonetheless, the big picture masks some nuances: the gains over the quarter and actually since the start of the year, were driven almost entirely by the largest "mega-cap tech" stocks, with the rest of the market delivering much more muted returns. For example, the performance of the S&P 500 index is now the most concentrated it has been since the 1970s, with seven of the biggest constituents (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta) gaining between 40% and 180% this year, while the remaining 493 companies are, in aggregate, flat.

- Regionally, performance was understandably led mainly by the US, with the S&P 500 Index* as a US proxy returning close to 8.6% over the period and reaching 16.6% returns Year to date, while the MSCI Europe Index* was up 2.3% and the MSCI EM Index* was up 0.9%. The MSCI Europe Index returns were less exciting this quarter, but remain up a healthy 11.1% this year while the MSCI EM Index* lags behind with returns of 4.9%. Emerging equities were generally held back by fading optimism over China after its initial reopening-driven rally but also due to South Africa's power situation continuing to deteriorate and Turkey posting the largest loss in US dollar terms as President Erdogan won re-election in May, extending his two-decade rule.

- This quarter, the Fed Funds Rate target was raised to a range of between 5%-5.25%, up from 4.75%-5% the previous quarter. In June specifically, the Fed left its rates unchanged after ten consecutive hikes, but its tone remained hawkish and it suggested that further rate hikes (2 at least) were likely between now and year-end as inflation remains elevated. For the most part, the apparent easing inflation can be attributed to energy prices retreating and supply-chain kinks working themselves out. Yet, the market seems optimistic about the Fed's ability to both tame inflation and avoid a recession, comforted by strong economic data.

- The International Sustainability Standards Board (**ISSB**), first introduced at COP26 in November 2021 with strong international political support, concluded the outcome of 18 months of work to deliver an inaugural set of two sustainability disclosure standards, which will take over from the Task Force on Climate-related Financial Disclosures (TCFD) starting in 2024. The ISSB Standards have been designed under the oversight of the IFRS Foundation to help companies tell their sustainability story in a robust, comparable and verifiable manner.

** 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

- Building on the momentum of the first quarter, global equity markets continued to display positive performance during Q2. This is true across the board but was particularly noticeable in the US due to the higher share of growth oriented tech stocks. Indeed, the market narrowness observed in March remained a feature throughout the quarter, and large cap tech skewed the wider market. This was fuelled by employment data points which remain better than expected and therefore have stimulated optimism that inflation may slow down without leading to an economic slowdown. Equally, general excitement around artificial intelligence and its implications on electronic systems and infrastructure contributed strongly to the performance of several technology companies.

- For the quarter, this resulted in +6.18% returns for the MSCI ACWI index (net total returns) while the UBAM Biodiversity Restoration portfolio returned +2.71% (net of fees, IC USD Class). Within this, style performance highlights the disparity between different areas of the market: MSCI ACWI Growth (net return USD) returned 9.19%, versus +2.98% for MSCI ACWI Value (net return USD). Going even further, the NYSE FANG+ index made up of the top 10 tech-enabled companies (Apple, Amazon, Netflix…) returned an impressive 25.16%.

- It is important to remember that such companies have an outsized impact on the fund’s relative performance. They represent an area which does not qualify as protecting or restoring biodiversity, and therefore cannot be owned. The impact is significant: performance contribution calculations show that these 10 stocks generated -7.67% of headwind during the first half of the year. Compared to the fund’s -6.51% underperformance during H1, this shows that on a comparable basis the strategy’s performance was actually better than it appears. This strength came from good security selection within Materials and Utilities as well as a positive allocation effect from the Industrials sector. Moreover, this level of performance was achieved despite SES Imagotag being targeted by an aggressive short report – while the resulting price swings were significant, the share price has now partially recovered as the claims were proven to be factually inaccurate and deliberately misleading.

- The biggest relative contributors for 2Q23 were **Advanced Drainage Systems** (+35.3% absolute, water management solutions), **Klabin** (+28.7% absolute, responsible forestry), **Badger Meter** (21.3% absolute, water control digitalisation), **Clean Harbors** (+15.3% absolute, industrial waste management and environmental remediation), **Stantec** (+12.2% absolute, infrastructure engineer and environmental consultant), **Tetra Tech** (+11.6% absolute, infrastructure engineer and environmental consultant), and **Mueller Water** (+16.9% absolute, water controls and infrastructure).

- Thematically, this reflects the dominance of Planet Compatible Utilities and Green Cities & Urban Spaces. More generally, companies involved with water management products or services, and ones involved with environmental or infrastructure services have proven resilient to ongoing macroeconomic uncertainty thanks to stable demand and supportive regulation.

- The biggest relative detractors for 2Q23 were **Lindsay** (-20.8% absolute, irrigation equipment), **Impax** (-26.1% absolute, sustainable asset manager), **DSM Firmenich** (-19.2% absolute, ingredients and life sciences), **Pharma Mar** (-29.5% absolute, marine inspired drugs), and **SES Imagotag** (-13.7% absolute, food retail digitalisation). These moves are mainly driven by idiosyncratic factors and events which have been taken into account by the managers in the position sizing process.

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- Overall, the widening market breadth seen towards the end of the quarter has benefitted the portfolio which remains adequately positioned to capture the opportunities arising from a solid regulatory schedule and strong consumer trends in the areas of biodiversity protection and restoration.

Portfolio activity:

There was no new portfolio addition or full position exit during the second quarter of the year, however the managers engaged in a higher level of small basket and single line trading than the start of the year. Overall, position adjustments reflect disciplined sizing of strong performers, awareness to valuation multiples, and a preference for quality growth companies whose momentum is ensured by structural support and regulation.

Notable increases

- **Arcadis** – the environmental consulting and infrastructure engineering space as a whole has been strong, but the managers recycled some capital from the North American players into European peer Arcadis due to stable earnings estimates and a lower valuation level. The company's "Resilience" and "Mobility" segments remains strong growth drivers.

- **Berkeley Group** – after introduction into the portfolio during Q1, the managers continued to build position in Berkeley due to the different portfolio characteristics it provides. The company also reported strong results leading to a strong earning trajectory picture and relative derating during Q2.

- **Gecina –** after introduction into the portfolio during Q1, the managers continued to build position in Berkeley due to the different portfolio characteristics it provides. The differentiated real estate name presents solid earnings dynamics thanks to inflation-linked contracts and a healthy pipeline of new deliveries over the next 18 months.

- The managers also undertook strategic increases in specialty retailer **Sprouts**, efficiency player **Trane**, and waste manager **Waste Connections**.

Notable reductions

- **Agco** – after generating significant outperformance in recent quarters, the position in precision agriculture manufacturer Agco was reduced early in the quarter to lower concentration to the space within the top 10 names when the market rotation was leading to softer relative returns.

- **Badger Meter** – despite solid fundamentals and continued outperformance, BMI was reduced to take profits and reflect the stock's significant rerating.

- **Clean Harbours** – despite solid fundamentals and continued outperformance, CLH was reduced to take profits and reflect the stock's significant rerating.

- **Croda & DSM Firmenich** – the ingredient and life science names were reduced due to continued uncertainty in the space, notably caused by vitamin price volatility, mix shifts, and overall softening demand.

- **SES Imagotag** – the company was the target of a short report written by Gotham City Research claiming incorrect accounting and subpar governance, resulting in significant price moves. Although the team's confidence in the company remained strong throughout and the price has partially recovered since, in light of the market reaction and indication that institutional investors were favouring a quick-exit approach rather than wait and see, the team concluded that the action most aligned with client interest was to reduce its exposure to the company.

- **Stantec & Tetra Tech** – as mentioned above, the managers recycled some capital from the North American environmental consultants into the European player Arcadis to lock in profits and benefit from lower valuation levels.

ESG Monitoring

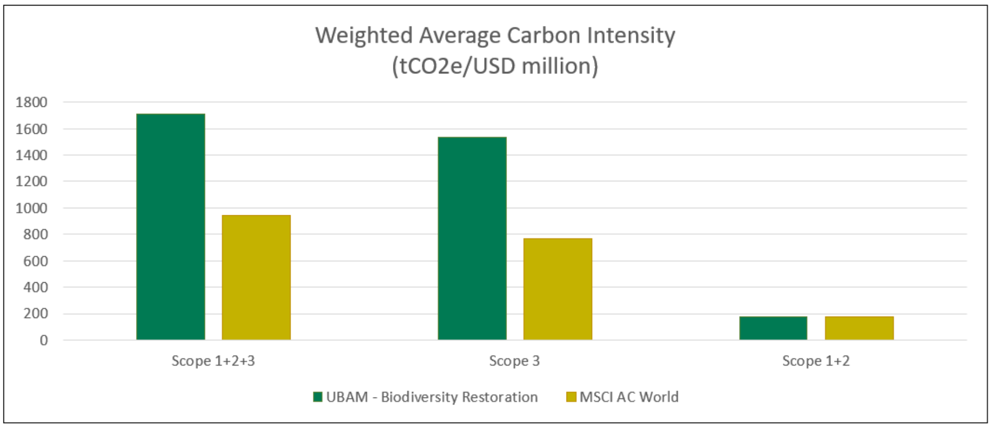
➢ **Human rights and Social**

(Disclosure: Fund 93.6% / Index: 99.9%)
and Social (Disclosure: Fund 93.6% / Index: 99.9%)

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - BRF	44	0	0	44	0	0
MSCI AC World	2790	116	23	2792	117	22
UBAM - BRF	100%	0%	0%	100%	0%	0%
MSCI AC World	95%	4%	1%	95%	4%	1%

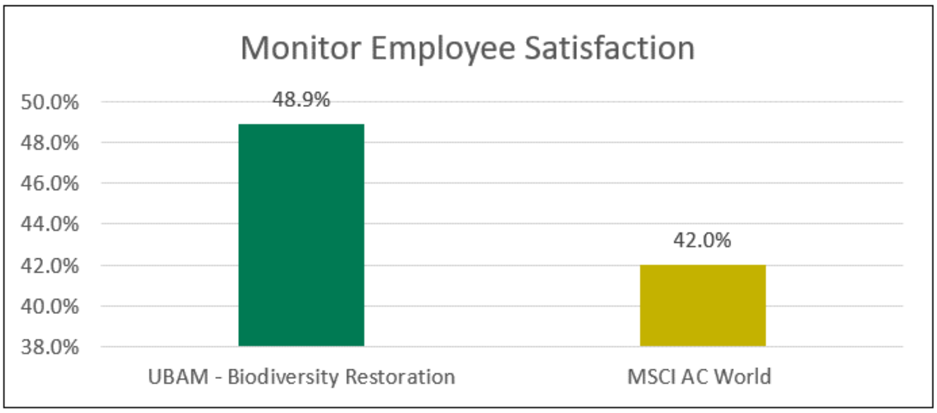
	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - GPIE	44	0	0	44	0	0
MSCI AC World	2875	38	18	2848	64	19
UBAM - GPIE	100%	0%	0%	100%	0%	0%
MSCI AC World	98%	1%	1%	97%	2%	1%

➢ **Environment**
(Public Disclosure: Fund 83% / Index: 93.5%, Coverage Including estimates: Fund 100% / Index 99.71%)

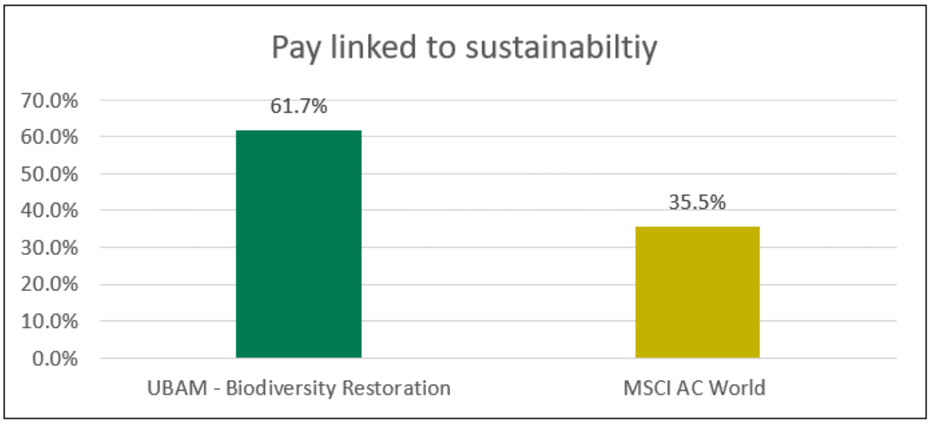


The fund is at the same level as the benchmark on a scope 1&2 basis. If we include scope 3 emissions, the Weighted Average Carbon Intensity of the benchmark is lower than for the fund. This situation suggests a significant change from previous reporting, especially on the benchmark side, requiring further analysis from the portfolio managers. Scope 3 emissions are an important part of any analysis of GHG emissions, but they are also hard to estimate and a few outliers can lead to significantly different portfolio levels. There are also cases in which scope 1, 2 &3 emissions do not capture the full benefit of certain products. We will report on our conclusions in the next quarters.

Social (Disclosure: Fund 91.5% / Index:99.0%)



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



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

Outlook

- At the half year stage, what have we learned? A number of things. First, the sectors that drove the market up in January, continued to be the dominant forces for the first half of 2023 overall, namely Technology and Consumer Discretionary. Excitement over AI is everywhere as is an obsession with Megacaps. Equally, inflation challenges are as live a topic as they were 6 months ago and central banks still seem quite a long way from a meaningful pivot. The market keeps reassessing down the number of rates cuts it now expects in the US in 2024.

- This orthodox monetary cycle should lead to an orthodox economic cycle. Without such a cycle, it is a challenge to see how policy setters will be convinced that inflation has been tamed. Yet, stock market participants continue to behave with selective attention, in other words, destocking and low levels of demand are weighing on some sectors like energy and materials, but not on discretionary spending plays or high growth sectors, yet, ultimately everything that is relevant to inputs of time series like manufacturing PMIs, will ultimately be influenced by everything that is relevant to consumer demand; it is impossible for one to fade whilst the other flourishes.

- Equally, as we have highlighted before, some of the levers of this cycle will be felt very gradually, for example, the withdrawal of central liquidity (QE). Over the coming months this factor will become more evident and yet many economic indicators are already weaker than at any time in the last 5 years. The cost of capital has already risen, next will come a deterioration in the availability of capital. The disconnect in markets is evident. In an environment where the macro signals seem this confusing, the team are focused on individual portfolio company prospects, aiming to skew weightings towards those stocks where the operating momentum feels most reliable and funding pressures are least severe.

- On the sustainability front, the climate alarm bells continue to ring loudly and the world's tropical rainforests are continuing to shrink, with the pace increasing last year, according to the latest update from the **World Resources Institute's Global Forest Review**. The more than 4 million hectares of primary tropical rainforest lost is roughly equal to the size of Switzerland, and produced 2.7 gigatonnes (Gt) of carbon dioxide emissions, equivalent to India's annual fossil fuel emissions.

- Yet, the commitment to low-carbon transition has never been higher, with now close to 90% of global emissions covered by national, state or supranational net-zero targets. In the meantime, the total global energy transition investment has more than doubled since 2019 from $522bn to $1'110bn in 2022 according to **BNEF**, matching fossil fuels for the first time. In the balance, progress and commitments continue to accelerate despite unprecedented headwinds such as Covid lockdowns, supply chain crunch, war and energy crisis', making the team confident about its dual-mandate strategy.

Sources: UBP, World Resources Institute's Global Forest Review, 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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