Q1 2021

# UBAM - POSITIVE IMPACT EQUITY

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*

- The financial markets continued to reflect investor optimism about the upturn in economic output and corporate earnings. For the first quarter of 2021, the S&P 500* posted a return of 6.05% and hit new all-time highs. The technology sector underperformed, which meant that European markets fared even better: the MSCI Europe* returned 8.35% with strong gains for both cyclical and defensive stocks. However, many emerging markets lost ground in March, usually for country-specific reasons. For example, the Chinese and Turkish markets both fell 6% during the month and the MSCI Emerging Markets* in USD finished the quarter with a performance of 2.29%.

- Investors were very optimistic **at the turn of the year**, but quickly saw several risks appear on their radar screens. Investor sentiment deteriorated from mid-January onwards because of the spread of new coronavirus variants, slow vaccination roll-outs in Europe and the possibility that the new US president's stimulus package would be reduced in size. Observers were also concerned about extreme price movements in some stocks, driven by hordes of retail investors. In the end, most equity markets fell slightly during January, although some large Asian markets strongly outperformed.

- **In February**, in the US, many economic indicators exceeded expectations, reflecting the rebound in activity. Generally, as the vaccination roll-out progressed and economies started opening up again. In the eurozone, indicators ticked up. While consumer confidence was being undermined by the slow progress of the vaccination campaign and the protracted lockdown, the industrial sector took heart from the prospect of economies reopening. The UK remained resilient despite the strict lockdown, and sentiment indicators recovered with the promise of a gradual lifting of restrictions. As for China, while it remained ahead of developed economies in terms of economic recovery, the traditional lunar new year volatility caused a dip in manufacturing and services sentiment.

- **In March**, the economic outlook continued to improve in the US, with sharp increases in business confidence – in both manufacturing and services – and consumer sentiment. Joe Biden's USD 1.9 trillion stimulus plan, which includes extensive support for households, was finally passed and a USD 2.25 trillion infrastructure plan was presented at the end of the month. In the eurozone, confidence levels in manufacturing and services rebounded even though tougher restrictions on people's movements were introduced during the month. In the UK, confidence increased sharply because of the rapid vaccine rollout and the plan to reopen the economy. In China, the authorities announced a minimum growth target of 6% along with a medium-term strategy that emphasises consumer spending and self-sufficiency in high-tech sectors. China's dialogue with the US remained tense, and the US kept its sanctions in place.

** 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*

- The strong start to the year was quickly followed by a market-wide rotation which weighed on equity returns throughout the second half of the quarter. Resulting performance was +3.48% (net of fees, IC EUR class) for the UBAM Positive Impact Equity fund, +8.35% for MSCI Europe*, 4.92% for MSCI World (USD)* and 4.57% for MSCI ACWI (USD)*.

  ** net total return index*

- On the one hand, the difference was caused by the hangover created by some of the eye-catching equity returns generated in 2020 – particularly in renewable energy stocks. Companies like Ceres Power and Soltec are down on a year-to-date basis but it must not be forgotten that their stock prices were up significantly last year, 384% and 156% respectively. Such price change permit opportunistic position growing and allowed us to top-up our Soltec holding.

- The rising yield environment led by US bonds and the implications for future levels of inflation are influencing market leadership. Value sectors have outperformed during Q1, with MSCI World Value* returning 9.56% versus 0.24% for MSCI World Growth*. Due to the growth bias which is inherent to Positive Impact companies, the funds performance should be examined in the context of this rotation.

- Thematically, Sustainable Communities was the strongest performer contributing more than 3% of fund returns. This covers areas like transport and efficient buildings which are mediatised in the context of the Green Deal and includes industrial companies which were less affected by Covid restrictions this time around. Notable performers are companies like Signify (+27.3%), which manufactures efficient lighting solutions, and Arcadis (+28.3%), involved in developing the urban infrastructure of tomorrow. Our disciplined sizing process required us to reduce our holding in the latter.

| Themes | Portfolio weight (average) % | Portfolio contribution % |
|---|---|---|
| Sustainable Communities | 30.49 | 3.04 |
| Health & Well-Being | 18.50 | 0.00 |
| Basic Needs | 17.89 | 0.19 |
| Climate Stability | 13.37 | -0.05 |
| Inclusive & Fair Economies | 12.97 | 0.86 |
| Healthy Ecosystems | 2.94 | -0.17 |

*Sources: UBP, Bloomberg Finance LP ; contribution based on gross return*

- As highlighted above, the negative contributors belong mainly to the Climate Stability theme with Valeo (-10.45%), Soltec (-20.38%) and Red Electrica (-11.03%) coming back from previously achieved highs. Other sources of underperformance came from company specific factors.

*Portfolio activity:*

- A number of positioning changes have been made to the portfolio during the quarter, as the investment team identified better ideas to address certain sectors.

- Red Electrica was sold entirely and replaced by the French company Spie. Spie also serves the energy transition and efficiency thematic through building maintenance and grid connection but displays better Potential thanks to more diverse end-market exposure. The company also provides multi-technical services in the areas of efficient buildings and smart cities making it a strong contributor to the post-carbon economy.


- Salmar was added to the portfolio as a more promising aquaculture player with record profitability and capital allocation. The company is focused on building significant deep offshore installation capabilities which presents far better environmental credentials than the current near-shore fish farming practices pursued by the majority of the industry. Combined with use of technology, the company is able to achieve reduced waste and nutrient pollution in the sea, less diseases and lower mortality.
- To reflect this preference, our existing aquaculture holding Norway Royal Salmon was reduced substantially.
- Laureate Education was significantly reduced throughout the quarter as the shares have rallied strongly after the hit from Covid-related operational changes and the team had concerns about management's strategic intentions. Despite being a B-Corp, communication has been unsatisfactory so the team took the decision to look for better ideas within the education space; having already initiated a position in Chegg in the US in 2020.
- E-mobility companies Hexagon Purus was also sold in order to concentrate on the parent company, Hexagon Composites, which still retains 75% ownership.

## *ESG Monitoring*

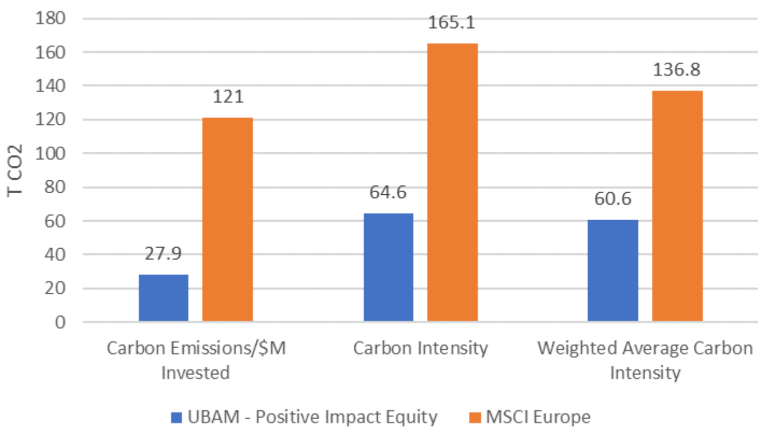
*(MSCI methodology provided in the appendix)*

➢ **Human rights** (Disclosure: Fund 92.5% / Index:100%)

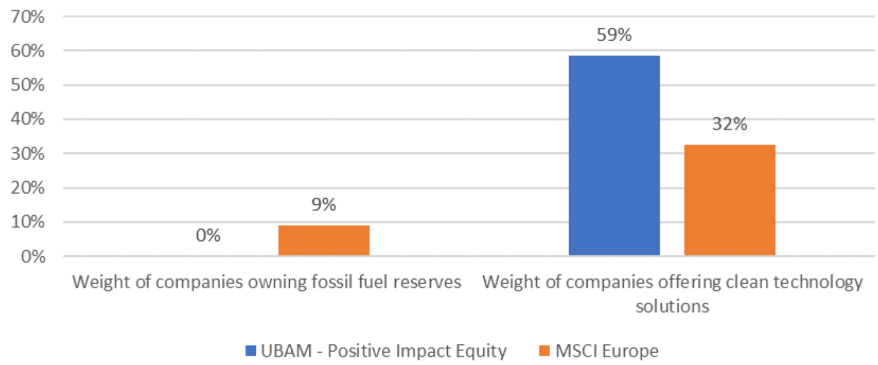
| | UN Global Compact | | | Human Rights Compliance | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - Positive Impact Equity | 36 | 1 | 0 | 36 | 1 | 0 |
| MSCI Europe | 393 | 34 | 7 | 408 | 25 | 1 |
| UBAM - Positive Impact Equity | 97% | 3% | 0% | 97% | 3% | 0% |
| MSCI Europe | 91% | 8% | 2% | 94% | 6% | 0% |

| | Labour Compliance - Core | | | Labor Compliance - Broad | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - Positive Impact Equity | 37 | 0 | 0 | 37 | 0 | 0 |
| MSCI Europe | 425 | 9 | 7 | 421 | 13 | 1 |
| UBAM - Positive Impact Equity | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI Europe | 98% | 2% | 2% | 97% | 3% | 0% |

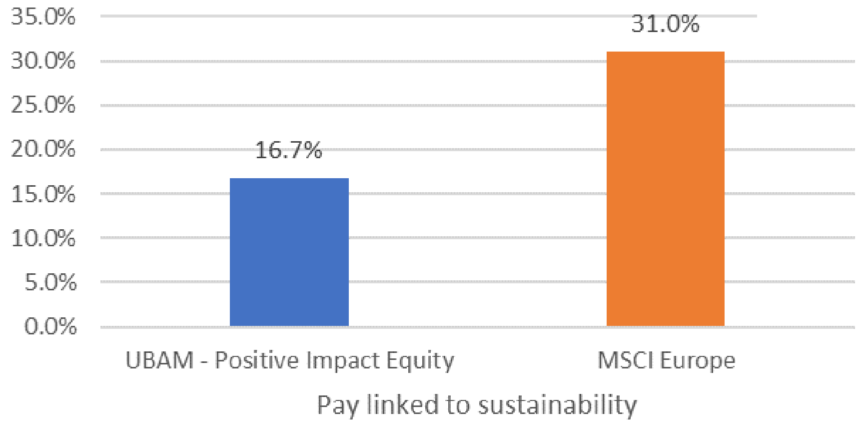
➢ **Environment** (Disclosure: Fund 96.6% / Index:100%)



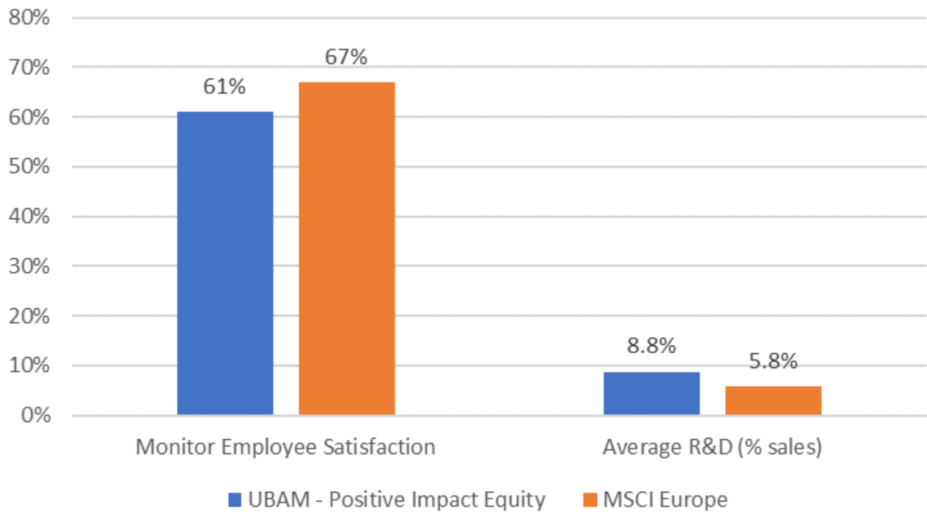

**Environment** (Disclosure: Fund 96.6% / Index:100%)




**Governance** (Disclosure: Fund 73% / Index:100%)




**Labour**
Employee Satisfaction (Disclosure: Fund 90.0% / Index:100%)
Average R&D: (Disclosure: Fund 92.5% / Index:100%)




*Sources: UBP, Based on MSCI ESG Research LLC*



## *Outlook*

- The US should lead the rebound expected in Q2 thanks to a strong vaccination roll out and the reopening of the economy. US consumers are in the driving seat of recovery:
  - US growth should strongly rebound from Q2 after a firmer than expected Q1; direct payments to households thanks to fiscal support should boost consumption, which also benefits from a positive wealth effect and large savings.
  - Consumption and investment should lead a strong 2021 recovery, where we revised up our GDP forecasts from 6.2% to 6.8%. Strong domestic demand should support inflation and trigger a decline in unemployment, the latter also being targeted by monetary and budgetary policy.
- In the eurozone, slow vaccination rollouts has contributed to the 3rd wave of the pandemic in progress. After contracting in Q1, only modest growth is expected in Q2 and a more significant rebound is postponed to Q3, when more vaccines will become available.
- Fiscal support should serve as the primary economic policy driver, though with ongoing support from monetary policy. We expect central bank strategies to begin diverging more meaningfully.
  - The Fed is seeking for strong growth and high inflation, but will not act to curb rising bond yields, except if financial conditions deteriorate.
  - The ECB increased its bond purchases to decorrelate European bond yields from US ones, due to delayed recovery and moderate medium-term inflation prospects.
  - The Chinese PBOC has adopted a tighter stance, while in Turkey and Brazil banks may hike rates further.
- Overall, we expect more modest equity returns ahead, but the risk of a big drawdown looks limited at present. In addition, we'll need to watch closely the effects of Biden's tax proposal and its impact on specific sectors.

## Appendix

## MSCI 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.
- Carbon Intensity relative to M$ invested
  This figure represents the company's Scope 1 + Scope 2 greenhouse gas emissions relative to the portfolio value in USD.
- Carbon Intensity
  This figure represents the company's Scope 1 + Scope 2 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes.
- Weighted Carbon Intensity
  This figure represents the portfolio's Scope 1 + Scope 2 greenhouse gas emissions normalized by sales in USD, and adjusted to the weight of each company.
- Fossil Fuel Reserves
  This field identifies companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field. Fossil reserves are defined as proved and probable reserves (i.e. 1P and 2P) for coal and proved reserves (i.e. 1P) for oil and natural gas. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves.
- Opportunities in Clean Tech
  This key issue evaluates the extent to which companies are taking advantages of opportunities in the market for environmental technologies. Companies that proactively invest in product and services addressing issues of resource conservation and climate change score higher on this key issue. Companies lacking strategies and investments targeting these areas score lower on this key issue. (Score: 0-10)
- 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.
- Average R&D to sales
  Simple average of portfolio companies' R&D spend relative to their sales.
- 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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