



UBAM – POSITIVE IMPACT EQUITY

Quarterly Comment | Q2 2019

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

Market Comment

- ◆ Q2 2019 may be remembered as the time when European governments got serious on climate change and carbon emissions. As Theresa May's swan song, the outgoing PM committed the UK to achieving "net-zero" emissions by 2050 in June. There are now four countries that have enshrined "net-zero" in law, Norway, France, Sweden and the UK, and two countries already carbon negative (Suriname, Bhutan). We were also inspired to see David Attenborough explicitly identify the governments of Australia and the United States as blindly pursuing current economic interests whilst ignoring the mounting cost of climate pressures within their borders.
- ◆ In markets the second quarter ended with positive performance across asset classes which marked the reversal of the weakness we observed during the month of May. Indeed, while economic data published in June was weak and the trade outlook remains uncertain, investor sentiment improved as both the Federal Reserve and the European Central Bank indicated that there would be further monetary stimulus to address the still low inflation.
- ◆ This led to +4.9% expansion of the MSCI Europe ex-UK index which corresponds to a full recovery of what was lost in May, while the UK market was up a similar +4.0%. In other geographies, the American market performed strongly with the S&P500 up +7.1%, followed by the emerging markets index (MSCI EM) up +4.7%. Strong returns were achieved on the credit side too, +2.4% for the Euro Treasuries and +1.0% for the US Treasuries. While counterintuitive at first sight, the rally in both asset classes was made possible by the continued expectation of rate cuts which is now combined with anticipation of more quantitative easing.
- ◆ While we concluded the first quarter with hints of an economic slowdown, this was confirmed during the second quarter which was a period of greater volatility with a wider divergence between economic indicators and financial market performance. Indeed, trade uncertainty persisted, tariff implementation started, and political tensions did not reduce. Investors took this into account in May but found support for further bullishness in April and June.
- ◆ Politically, the US and China have pursued trade negotiations. Investors will probably find some relief in the fact that the worst case scenario has been avoided for now, but the continued uncertainty and potential degradation of the relationship is likely to weigh on the short-term sentiment. This is visible through Consumer Confidence and Manufacturing PMI levels which decreased throughout geographies when looking at 3-months aggregates.
- ◆ In the UK, the major event was Theresa May stepping down which was followed by a Conservative Party leadership race and renewed uncertainty around Brexit. It is still very likely that parliament will prevent a no-deal Brexit unless this is communicated by the population in either a referendum or a general election.
- ◆ Overall, the second quarter of this year has seen a reversal in economic indicators suggesting a widespread slowdown but this has not been visible in global markets as investors found conviction and support for their optimism in the supportive central bank messaging.

All performance figures are given net of fees unless stated otherwise. Past performance is not a guide to current or future returns.
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◆ *Performance Review*

- ◆ The fund gained 4.08% over the quarter, holding up well against a relatively volatile backdrop of a positive April and June, with a very weak May in markets. The positive performance was quite well spread across the fund thematics, with strong contributions from Health & Wellbeing, Sustainable Communities and Inclusive & Fair Economies. Healthy ecosystems had a weaker quarter as did Basic Needs after a strong Q1.
- ◆ Outstanding stocks over the period included Alk-Abello A/S, Sika AG and Kingspan Group PLC. All 3 companies had good results and are in both different sectors and themes, illustrating the broad nature of performance in Q2. Companies which disappointed in the quarter included Aquafil Spa, Countryside and ASA International Group PLC. Two of these businesses are UK listed and have potentially suffered from ongoing uncertainty in UK markets.

Investment Theme	Average Theme Q2 Performance
Basic Needs	1.54%
Health & Wellbeing	11.01%
Inclusive & Fair Economies	4.48%
Healthy Ecosystems	-0.32%
Sustainable Communities	5.33%
Climate Stability:	2.97%

Portfolio Activity

- ◆ We began a new holding in Laureate Education INC. The company is US listed, but provides educational services to 20 countries, largely in Emerging Markets. They focus on traditionally underserved groups such as first generation, low-income and returning adults. Laureate scores 14/20 on our IMAP system.
- ◆ We partially funded this through some profit-taking of some of our names which have enjoyed incredibly strong performance year to date (e.g. Tomra Systems ASA, Alk-Abello).

Quarterly Thematic Focus: Healthy Ecosystems

- ◆ Healthy Ecosystems is one of our 3 environmental themes and captures UN SDGs 14 & 15. The focus here is the preservation and restoration of our land and seas. Blockers include over-fishing, unsustainable farming (e.g. uncertified palm oil) and excessive use of pesticides. Fixers are those companies with the innovation and vision to use resources in a more efficient and less damaging way.

Case Study: Corticeira Amorim S.A

UN SDG 12 & 15: sub-goal targets and indicators

12.2	By 2030, achieve the sustainable management and efficient use of natural resources	12.5	By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
12.4	By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimise their adverse impacts on human health and the environment.	15.2	By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.

Source(s): <https://www.un.org/sustainabledevelopment/development-agenda/>

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IMAP SCORE

INTENTIONALITY	MATERIALITY	ADDITIONALITY	POTENTIAL	TOTAL
4	5	4	3	16

- ◆ **Intentionality** – Amorim mission is stated as ‘to add value to cork, in a competitive, differentiating and innovative manner in perfect harmony with Nature.’ Amorim is also funding research into speeding up the time to first extraction of cork using targeted irrigation. The company highlighted Lavoisier’s law ‘Nothing is lost, everything is transformed’ as being a key tenet of their business.
- ◆ **Materiality** – Amorim scores 5 on materiality. The company is 100% focused on industrialising all product avenues that can be associated with cork. Where it uses other base inputs this is purely to tailor cork to the end market use. Furthermore, Amorim has a zero cork waste and a 90% waste recovery rate for non-cork.
- ◆ **Additionality** – Amorim is one of two pure play cork companies, but it is unique in its product breadth. However, there is not a huge synergy between distribution of cork stoppers and for example composite, insulation or cork based flooring. Indeed in these other divisions, cork has to face off against other much larger competitors using different materials. Additionality lies mainly in Amorim’s dominance of the cork industry and their buying power.
- ◆ **Potentiality** – At present, the potential for cork is relative low. This is not an industry which can suddenly grow into an unexpected revenue line. Indeed wine consumption is growing at c.0.5% per annum (although higher value wine is growing a lot faster than this) and Amorim is capable of adding some price inflation via product innovation.
- ◆ Corticeira Amorim is the world’s largest cork products company. They own a broad portfolio of products which all have sustainability at their core. The drive product for the group remains cork stoppers for the wine industry, but with a focus on zero wastage Amorim is also present in flooring, insulation and composite cork applications.
- ◆ Cork is a very high performance raw material which no industrial or technological process has been able to replicate: more than 50% of its volume is air making it very light hence able to float, it is elastic and compressible, impermeable to both liquids and gases, acts as a very good insulator thanks to its low conductivity of heat, noise and vibration, and is a fire retardant. This supports the use of cork as substitute for other materials, which is also reinforced by its sustainable properties.
- ◆ Corticeira Amorim was the first company in the industry to promote the analysis of the environmental impact of its products through their entire life cycle. The footprint of cork stoppers was compared to aluminium screw caps and plastic stoppers and the findings are best in class. Firstly, cork oak trees supports fragile ecosystems by preserving biodiversity – perfectly adapted to warm climate and arid soil, they protect against erosion and desertification, act as a barrier against fire and absorb a significant amount of carbon dioxide.
- ◆ Another of Corticeira Amorim’s initiatives is to operate a circular economy through collection and recycling of cork, and the fact that it produces 65% of its energy from biomass, a CO2 neutral process.

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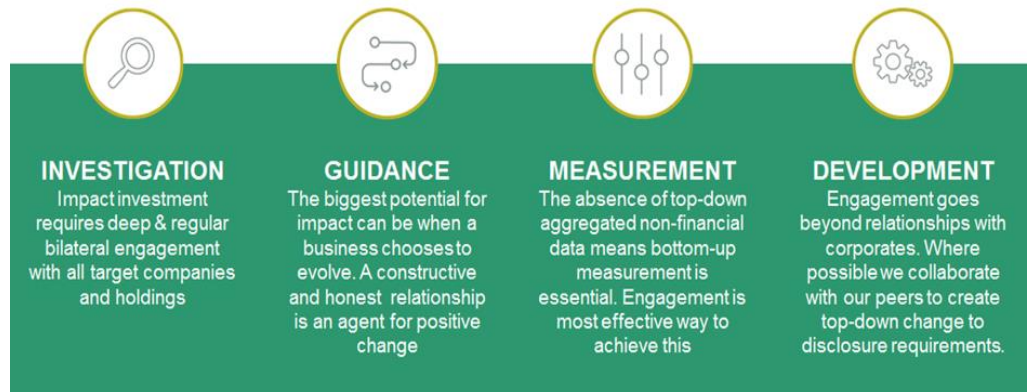
- ◆ The negative carbon production Amorim displays makes it a unique constituent of the Positive Impact fund, and the ability to recycle and reuse cork in numerous applications emphasises the fact that it is a disruptive and attractive substitute.
- ◆ The resulting CO2 absorption per tonne of production is over 73,000 tonnes – a vital contribution to reducing greenhouse gas emissions and in turn, climate change.

CORTICEIRA AMORIM: KPI OF THE QUARTER

Per €1m investment in UBAM Positive Impact Equity:

- 84,000 corks per annum with c. 400gms carbon capture each

Engagement activity during Q2 – Case Study: Intertek, Befesa, and Kerry Group



- ◆ In Q2, we have conducted a lot of engagement which falls into the ‘guidance’ area of our engagement policy. Impact investing is still a relatively new field in listed equities and many of the companies we speak to have rarely been asked about impact before.
- ◆ Often they do not have bottom-up impact KPIs and so our interaction can help companies to frame the areas of most importance for the investing community to measure the impact generated.
- ◆ Key contact this quarter involved **Intertek, Befesa and Kerry Group**. All of these businesses score very well on our IMAP system, but are evolving their approach to sustainability. We will continue to engage with them over the next 12 months (including in some cases, presenting to the board), with the aspiration of creating meaningful metrics which can be included in their next sustainability reports.

Q2 recommended Read

- ◆ **“Drawdown: the most comprehensive plan ever proposed to reverse global warming”** by Paul Hawken. The most fascinating thing about this excellent (although heavy!) book is that it is solutions-focussed and leaves the reader with a sense that it is not too late for us to solve the climate crisis. It is a perfect book to dip into to explore really innovative and effective solutions that can be implemented both domestically and at national level and combines vision with practicality.



Outlook

- ◆ Equity markets have recovered significant ground in the first half of 2019, against a backdrop of more challenging macroeconomic conditions and slowing earnings growth, boosted by a more accommodative stance from central banks and a recent softening of the tone of the US-China trade discussions. We believe that there is a likelihood of continued market volatility into the second half of the year as we see evidence of further deterioration in the outlook for corporate earnings coming into the second quarter earnings season.
- ◆ Nevertheless, any sign of stabilisation of economic indicators combined with a further improvement in international trade discussions could provide positive impetus for equities. In addition, we are seeing signs of positive impact businesses displaying more resilience than the broader market as on the whole, the demand profile for their products continues to be robust.
- ◆ In spite of the uncertain economic backdrop, the regulatory backdrop for impact is increasingly supportive with more stringent environmental regulations coming into force (for example in the shipping and fashion sectors, also regarding single use plastic). This continues to divide the investment universe into companies with an increased cost of business going forward and companies which are providing the solution to the regulation change (i.e. alternative materials, more efficient engines etc). The pipeline of good ideas therefore remains strong.

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