Q4 2021

UBAM – POSITIVE IMPACT EQUITY

Quarterly Comment

Label ISR

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 second half of 2021 saw the world's largest regions complete their economic recoveries from the pandemic-induced lockdowns of 2020 and move into the next stage of the cycle. Inflation has been coming into focus across regions, not only highlighting the maturing of the global economic cycle, but also signalling a structural shift in the growth–inflation balance of the last decade.
- Global equities ended the quarter up with +6.68% (MSCI ACWI*). In the US specifically, the S&P 500* index progressed by 10.91% during the fourth quarter with a noticeable outperformance of the Growth segment over the Value (11.58% q/q for the Russell 1000 Growth* and +7.61% q/q for the Russell 1000 Value*). In this context the MSCI Europe* delivered +7.68%, outperforming the MSCI Europe Small Cap* +4.61%. Finally, the Emerging markets delivered -1.31%, again with a high dispersion. Taiwan was up +8.43% and on the other side, Chile was down – 10.50%.
- The UK hosted the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 31 October – 13 November 2021. The successes of the conference include a breakthrough agreement on fossil fuels, agreement on a 45% reduction in emissions by 2030, progress on the global carbon trading mechanism, and further discussions on the need to tackle methane emissions. Importantly, the International Energy Agency (IEA) stated that if all pledges come to fruition, the world is on track for warming of 1.8°C, which represents an improvement both from the 2.7°C rise calculated by the United Nations using the 2030 pledges and targets that existed prior to COP26, as well as the 2.1°C rise obtained by factoring in 2050 net-zero objectives.
- The final outcomes of COP26 can be interpreted as a series of constructive compromises, which, in spite of their drawbacks, send a positive signal as countries around the globe acknowledge that stronger action is required to combat the climate crisis. The momentum behind companies that supply solutions to the problems highlighted by COP26 will no doubt continue to grow and the reallocation of capital away from unsustainable revenue streams towards this global realignment has just received another shot in the arm.

** 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

- In the last quarter of 2021, global stock markets remained hostage to strong macro-economic trends, in particular inflation pressures. Consensus moved towards an understanding that these pressures cannot be mitigated quickly, by both the market and the central banks, leading to a delicate balancing work to navigate strong growth, tight labour markets and supply shortage, but also the rise of the Omicron variant.

- In light of this evolving backdrop, the managers of PIE have spent much of 2021 reducing the overall valuation of the portfolio, reducing exposure to high multiple stocks that we perceive to be more vulnerable to earnings disappointments whilst increasing weightings to more defensive businesses with stronger control over their input costs. The rotation in markets towards energy and bank stocks has been a temporary headwind for impact strategies given that neither of these types of business currently illustrate clear intentions to move towards a more sustainable planet.

- Resulting performance was +4.71% (net of fees, IC EUR class) for the UBAM Positive Impact Equity fund, +7.68% for MSCI Europe* and 8.72% for MSCI ACWI* (EUR). While the case for impact companies remains attractive because a growing part of the business and finance community is prioritising the minimisation of their footprint, the strategy's low exposure to Information Technology, the best performing sector in the MSCI ACWI, was a headwind to performance.

  * net total return index

- The biggest positive contributors were Tomra (+39.20%), Trex (+35.01%), Sika (+33.64%), ALK Abello (+27.10%), and Thule (23.33%) which benefited from structural growth drivers in their respective industries and better earnings visibility thanks to a better ability to pass on input cost rises.

- On the other hand, the negative contributors were Hoffmann Green Cement (-14.68%), Orpea (-12.51%), Soltec Power (-11.13%), Safaricom (-10.29%), and Bandhan Bank (-9.13%). Hoffmann Green suffered from pushing out its profitability breakeven timeframe by 2 years due to additional strategic investments, Orpea suffered from the bearish view given to the broader dependent care industry due to ability to pass on higher input costs, and Soltec Power continues to trade at low levels solar PV modules prices and transportation costs remain at elevated levels.

Portfolio activity:

- Following on the action taken during the third quarter, the portfolio managers continued to reduce exposure to elevated near-term P/E ratios to better navigate macroeconomic trends. Disciplined position sizing management led to reducing extended positions or ones where relative performance remains under pressure:

  Trex – the stock had enjoyed a strong run in previous quarters however, we have become more cautious on their ability to control input prices and logistics shortages. As a precaution we have reduced the position by c.1.25%-points.

  Xylem – the company has performed strongly during the last 12 months, however, our monitoring of earnings revisions highlighted a deterioration in outlook in recent weeks and we took the opportunity to reduce the weighting in light of this.

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Ecolab, Thermofisher and Croda – these three positions were reduced in line with our sizing model to reflect either strong performance and high RSI levels (e.g. Thermofisher and Croda) or a recommendation to reduce the weighting where the portfolio capital can be better invested elsewhere.

In the case of Chegg we have disposed of the position entirely to reflect the flat that in our view the investment case behind the stock has completely changed after the profit warning during November. The company's visibility over its core education markets has deteriorated rapidly as economies unlock and people go back out into the work place. In light of these changes we took the decision to promote other stock ideas which we have recently reviewed from the watchlist.

Lastly, the team sold the remaining position in TPI Composites. We have been reducing this position for some time but in light of a rising fears around the profitability within the wind turbine industry, we took the decision to exit the position entirely.

- The funds raised were used to increase exposure to stocks with operational momentum as a source of deliverable investment alpha and to fund the following portfolio additions:

  UPM Kymmene – This new addition within the portfolio fits within the Healthy Ecosystems, an area of the Impact universe where it has been difficult to match strong financial and non-financial attributes. The Finnish forest owner and pulp and paper producer has a long and impressive history as a steward of biodiversity and makes a good addition for the portfolio in terms of industrial diversification.

  Uponor is a Finnish based industrial focused on the heating, ventilation and air conditioning markets. Uponor's products are key in the general move to decarbonise buildings, both residential and commercial by providing more efficient heating systems. The shares are on an undemanding 15x earnings multiple which we believe can expand as its green credentials are more widely recognised.

  Impax Asset Management – This addition to the portfolio fits within the theme of Inclusive and Fair Economies and within the industrial vertical of Financial Stewardship. Impax is a fast-growing investment manager which offers a broad range of climate related impact funds.

  Recticel – This new addition to the portfolio is active within the building insulation market. The company is in an interesting situation at the moment in that there are a number of rival bids for parts of the company's business. We believe that ultimately Recticel will emerge as a business more purely focused on insulation materials for which there is a strong demand at present as the company's core markets invest more heavily on reducing the CO_2 footprint of buildings

  A new position was initiated in Infineon, a European semi-conductor name with strong industry positions in both automotive and power applications. In both cases, the following wind of higher end demand is likely to remain in place for a considerably number of years. Infineon has broadened its offering to position itself as a full solutions provider, reflecting the need from, for example, Auto OEMs to scale up production volume of electric vehicles.

ESG Monitoring

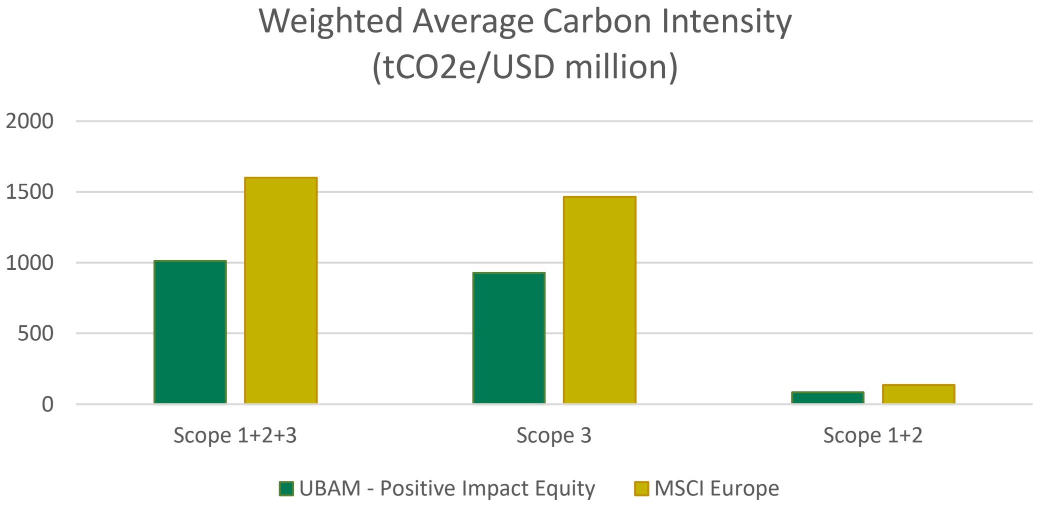
(MSCI methodology provided in the appendix)

➤ **Human rights and Social** (Disclosure: Fund 95.3% / Index:100%)

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIE	40	1	0	40	1	0
MSCI Europe	389	28	3	397	20	1
UBAM - PIE	98%	2%	0%	98%	2%	0%
MSCI Europe	93%	7%	1%	95%	5%	0%

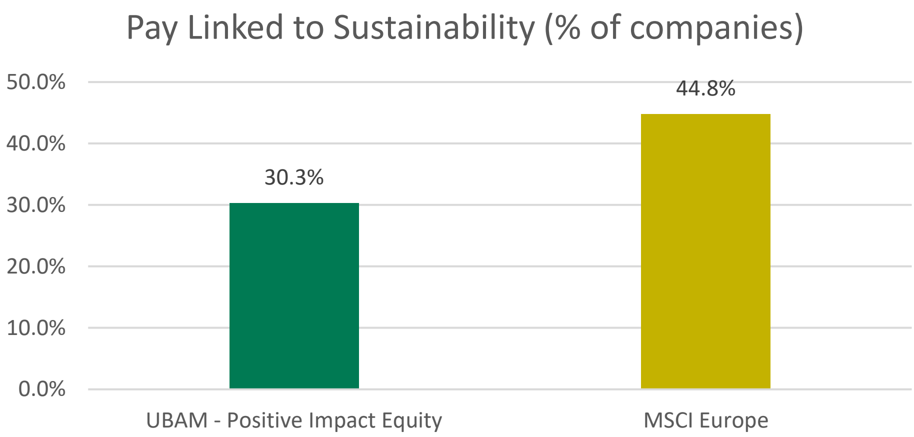
	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIE	41	0	0	41	0	0
MSCI Europe	411	6	0	409	8	0
UBAM - PIE	100%	0%	0%	100%	0%	0%
MSCI Europe	98%	1%	0%	98%	2%	0%

➤ **Environment**
(Coverage Scope 1+2: Fund 74% / Index: 98%)
(Coverage Scope 3: Fund 56% / Index: 85%)

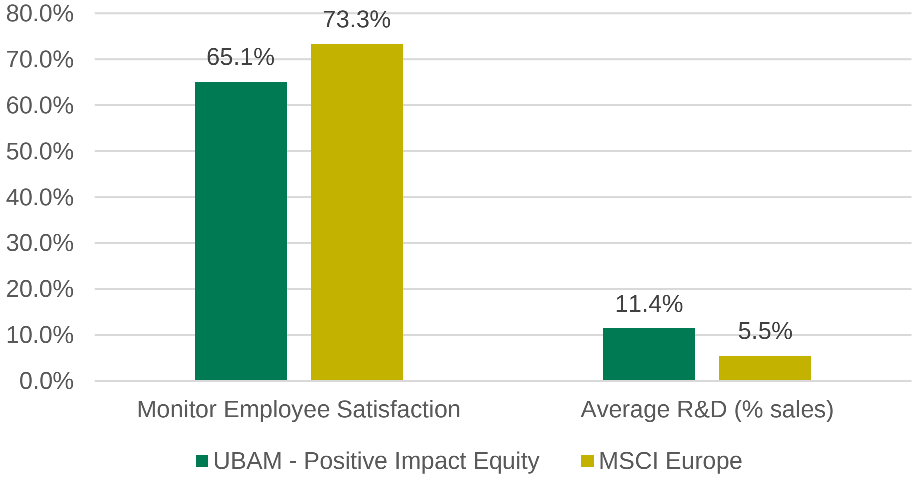


Carbon Intensity metric: UBAM - Positive Impact Equity aims to beat the benchmark (MSCI Europe) for this metric

➢ **Governance** (Disclosure: Fund 95.3% / Index:100%)



➢ **Labour**
Employee Satisfaction (Disclosure: Fund 93% / Index:100%)
Average R&D: (Disclosure: Fund 90.6% / Index:77%)



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

Outlook

- In 2022, the global economy is likely to grow by around 4% after a sharp upturn taking growth close to 6% in 2021.
- Consumption should continue to lead the growth trend next year. Healthy labour markets and decline in saving should balance the erosion of the purchasing power.
- Investment should prolong the cycle thanks to public investment in climate change and new technologies. High profit and search for productivity should lead corporates to invest more.
- Bottlenecks in industry should progressively reduce in 2022, but at different pace according to sectors. Emerging countries should reinforce vaccination and may benefit from a complete recovery closing the gap with 2019.
- New variants of the virus are tail risks which could impact activity via a worrisome pandemic or could turn into a more benign endemic virus, leading to a “stop and go” on activity. In past lockdowns, capital was not destroyed, and demand was just delayed; activity has recovered rapidly in the reopening phase.
- Inflation should remain high in H1-22 and is expected to decline progressively during the year.
- The economic policy should remain a support to growth: the budgetary policy should help labour and targeted sectors, while monetary policy adopts a risk management approach with a limited tightening in rates to preserve growth.
- In the equity space, although the outlook remains positive for 2022, the return should be more moderate with higher volatility going forward. Earnings growth should continue to support the asset class, while valuations will moderate.
- With the backdrop of Cop26 still fresh in minds and a growing section of the business and finance community prioritising the minimisation of their footprint, the case for impact companies remains attractive.

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.
- 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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