UBAM - POSITIVE IMPACT EQUITY

Quarterly Comment

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

Sustainability & Market Review

- It seems a lifetime since, not just one quarter since, Larry Fink / BlackRock's major sustainability strategy announcement in mid-January or indeed the bushfires that ravaged more than 25m acres of Australia. In a tough environment such as this, our report starts on a positive tone, highlighting some of the constructive events that occurred in Q1. One of the key benefits of Blackrock's epiphany has been the investment giant's commitment to SASB and TCFD disclosure. Their announcement was followed later in the quarter by other influential asset owners in GPIF (Japan), Calstrs, USS and State Street. Individual investment management houses will not succeed through operating in a vacuum but by collaboration as an industry, we can influence the pace of change. If a large asset manager is engaging with all its portfolio companies (basically every listed company of any size in the case of Blackrock) on disclosure, then it makes our own engagement efforts more openly received. Time will tell whether the old adage of Wall Street can be refined to 'Green is Good'.

- An equally eye-catching initiative has come from Sustainable Aviation, a coalition of European companies including Rolls Royce, easyJet, Airbus and Air BP (as well as the bigger BP too) who have widened the industrial ambition of net zero emissions. Whilst offsetting is not ideal, and 2050 is a target too far in the future, an announcement like this was unheard of a few years ago. Any concern that these actions may simply be the minimum effort by an industry to avoid stricter regulatory pressure does seem destined to be assuaged. For example, the European Securities and Markets Authority's chair, Stephen Maijoor, announced in a speech in Dublin that where sustainability ratings led to investment decisions the regulator would expect the suppliers of those ratings themselves to be regulated. This would certainly raise the pressure on those companies that are simply window-dressing. The 700-page EU taxonomy adds weight to this movement.

- There has been growing momentum behind the need for a global carbon price with Ursula von der Leyen, Janet Yellen, Axel Weber and Prince Charles all adding their voices to this initiative. The IMF has published an authoritative piece (link here) on the topic. The prospect of a diplomatic trade spat at some point in the future has increased after Von der Leyen suggested the EU may establish border adjustment mechanisms; a necessary but controversial policy.

- A similar area of progress has been within metals trading, specifically the London Metal Exchange is moving to include carbon emissions associated with metals on its trading platform. The significance of a move like this is that it targets a new stakeholder group, relatively separate from the mor--e frequented areas of good ESG and will help to improve disclosure on more polluting metals like cobalt and aluminium. The pertinent question remains whether this growing scrutiny 'upstream', will have any constructive offset for the persistent devaluation of oil and gas stocks which are now languishing at their lowest p/e relative vs the market since 1941 (US O&G vs S&P 500, Bloomberg).

- The contrary direction taken by the US administration in respect to the Paris accord has been viewed as a great disappointment in many quarters. But this often misses the point that many US states (25 at last count) still intend on honouring the agreement's targets. During Q1, Fed Chair Jay Powell hinted that the central bank may join the Network for Greening the Financial System. The March 4th publication of the details of the European Commission's green deal takes the policy framework efforts on to the next stage. Excitingly, many commentators believe that some aspects of this European initiative will ultimately translate global standards, as was the case with GDPR.

- Since the start of March, the events highlighted above have been increasingly overshadowed by the spread of the Coronavirus, particularly into Western economies. We have witnessed some excellent leadership from a wide cross-section of global companies, for example Maersk offering their fleet for the transportation of emergency supplies, US apparel manufacturers switching production to face masks and the long list of executives that have sacrificed pay for good causes. The pace of change in respect to sustainability, particularly regulatory, will no doubt slow as the world pauses to combat the pandemic but the conviction in corporate responsibility when we exit will no doubt be stronger and the huge stress test on the corporate capacity to adapt will have long term positive outcomes.

Markets

- Despite starting the new decade in a good mood, the change in momentum of risk markets as 2020 progressed was inevitably noticeable. The economic cycle was already in slowdown; however, the orthodox cycle was interrupted abruptly as the Covid-19 virus spread across regions. As of today, the disease has been declared a pandemic, causing large parts of the global economy to idle and making a global recession a tangible reality.

- For the quarter as a whole, the good start is now entirely forgotten. In its place will be the record of one of the worst quarters for the collection of major equity indices in living memory. The S&P 500 index fell -19.6% in Q1, setting records on its way down – fastest -30% decline, most violent peak to trough move and volatility comparable to 2008. The MSCI Europe made similar returns of -22.6%, followed by the MSCI EM at -23.6% (all in local currency).

- Representative of the economic disruption, commodity prices were also hit as demand for most of them declined. Oil prices fell more than most, -60%, due to a combination of lower demand and interruption of the supply constraints between Russia and the OPECs.

- The extent of the hit to the economy is still unknown but a selection of indicators highlights the disruption: Chinese car sales fell by -80% in February, restaurant bookings are down -100% on some mobile apps and US unemployment claims doubled and were nearly 7 million. Most governments and central banks have taken supportive action by issuing government-backed loans or other fiscal stimulus, cutting rates and restarting asset purchase programmes in an attempt to mitigate the economic consequences of the virus. This should slow unemployment growth and prevent good businesses from going bankrupt.
- These economic moves underscore an unprecedented global cardiac arrest as never experienced before. The size of the policy responses around the globe show just how serious the current environment has rapidly become. Perhaps the global nature of Covid-19 is the main upside here, in that policymakers from all countries will experience the damage of a pandemic of this magnitude first-hand and carry that knowledge into future policy decisions.

Performance Review

- UBAM - Positive Impact Equity is a growth portfolio by the very nature of its focus on ‘fixers’ that provide solutions to today’s problems. For many of our companies their best years of growth are still ahead of them as spending commitments to achieve the UN SDGs increase. Our previous experience of an adverse period of anti-growth sentiment in markets was bruising (Q4, 2018), so it was with some relief that we assessed the -21.5% for Q1. Whilst this is by no means a satisfactory result, it does at least show that a portfolio of sustainable growth names can outperform falling markets.

Investment Theme	Average Theme Q1 Performance
Basic Needs	-21.64%
Health & Wellbeing	-23.33%
Inclusive & Fair Economies	-30.01%
Healthy Ecosystems	-28.67%
Sustainable Communities	-15.08%
Climate Stability	-17.12%

- At the theme level there was some dispersion in performance with Climate Stability and Sustainable Communities stocks generally faring quite well whilst Inclusive and Fair Economies as a theme really struggled, in part due to the exposure to micro finance. Healthy Ecosystems’ performance was mainly driven by those stocks which experienced the greatest business disruption.
- On a stock basis, there are a number of names that performed very weakly during the quarter. The worst three names, Basic-Fit NV, Countryside Properties Plc and Laureate Education Inc all suffered significant business interruption as the Covid-19 lockdown spread to all corners of the globe.
- Basic-Fit has the toughest of businesses to manage in this environment as its members will need compensation for the closure of gyms but rent on those locations and salaries still need to be paid.
- Countryside Properties fell in sympathy with all UK housebuilders as the construction industry ground to a total halt. There has been some talk at government level of furloughing the whole housing industry whilst the country remains in lockdown. To our eyes the 38% fall in Q1 exaggerates the risk to this affordable housebuilder given it has no debt and provides a crucial service to many local authorities.
- Laureate Education shares many of the attributes of BasiFit in that this emerging market focused higher education supplier runs mainly bricks and mortar universities which have been severely disrupted. That said Laureate was already on a constructive path of selling non-core assets which have modestly improved their debt burden. At around 50% of shareholders equity this ratio is relatively strong and we believe the business will be well placed to rebound when restrictions start to be lifted. We would expect the company to focus more closely on remote learning which is offered to about 25% of their student body.

- At the other end of the scale are two new holdings, Ping An Good Doctor and Ceres Power Plc (see below) as well as Hoffmann Green Cement Technologies SA which held up remarkably well in the onslaught. As the low emissions cement producer is currently in construction phase of its facilities, business interruption is not a great issue for them operationally, however, a lot of innocent small caps have been badly derated in the market sell off. We would also highlight robust performances from Christian Hansen A/S and Tianneng Power International Ltd both of which fell less than 5%.

Portfolio Activity

- We added two new stocks during the quarter taking advantage some of the enormous market dislocation.

- We bought a new position in Ceres Power in line with our ongoing research into Climate Stability and in particular renewable energy generation. Ceres is one of the world's leading players in the fuel cell manufacturing process. Whilst fuel cell technology has been around for decades, we believe its application is on the cusp of significant growth. With industrial agreements in place with Miura Co, Doosan Group, Weichai Power Co Ltd and Bosch Ltd, Ceres Power is well placed to benefit from the ramp up in global production of fuel cells used for distributed power generations for applications which include commercial and residential buildings electricity supply, data centres back up energy demands and range extension for commercial electric vehicles.

- The second purchase was a starting position in Ping An Good Doctor (covered in detail in the thematic section below). The choice of this area of Health and Wellbeing is strongly influenced by the current stresses in healthcare caused by the global lockdown.

- Sadly, we have been compelled to make several evasive portfolio changes in response to the market fall. We have sold our holdings in ASA International Group Plc and Aquafil Spa as both companies are now too illiquid to be considered as strong investee companies, despite compelling IMAP scores and terrific intentionality. We will keep both companies on our watchlist and continue to engage closely. At the beginning of March, we also substantially reduced our position in Basic-Fit as we were concerned about the effect that the widespread lockdown would have on a fitness gym operator.

Quarterly Thematic Focus: Health & Wellbeing, Ping An Good Doctor

Ping An Good Doctor – IMAP score 18

- In the context of the Covid-19 virus and the widespread crisis it has caused during this first quarter, our Health & Wellbeing theme feels particularly relevant. Linked to the SDGs 3 ("Good Health and Wellbeing") and 10 ("Reduced Inequalities), it addresses the topic of healthcare, social empowerment and equal opportunity from a number of different angles.

- Due to the nature of the medical industry, the existing names in the theme include companies that develop new treatments such as Alk Abello A/S, or ones that manufacture equipment for these treatments such as Thermo Fisher Scientific Inc – two areas which we know, now more than ever, are crucial to ensure that society's medical needs are met. While the overlap between notions such as good health and reduced inequalities may seem abstract at first, the scale of the current pandemic has highlighted the different countries' ability to take quick and effective action while managing public expectations to avoid general panic. Accessibility and affordability of healthcare have become key topics. This is an opportunity for us to introduce one of the latest additions to the fund – Ping An Healthcare and Technology Co Ltd.

- Ping An is China's largest platform of online healthcare services, providing online doctor consultations, related healthcare products and other wellness management services. By allowing an online version of essential medical functions, the company addresses several issues that healthcare systems around the world must face.

- In China, a structural mismatch is growing due to the difference in demand and supply of quality healthcare. Indeed, high-quality medical resources are concentrated in the larger cities and only represent a small part of the total offering (only 8% of hospitals achieve the highest standard; class 3) but still account for half of total patient visits. This causes long waiting times and poor patient experiences. Moreover, the lack of consultation capacity is emphasised by constantly growing urbanisation and corresponding population density; the average waiting time for an outpatient visit is 3 hours while consultations last on average 8 minutes.

- Thanks to the knowledge it compiles, the Good Doctor platform becomes the patients' first point of contact – it advises and redirects them according to the symptoms and information they provide. As most conditions can be resolved with a single consultation, the service allows more efficient use of doctors' time across the patients while making high-quality medical advice more accessible. Only when necessary are the patients transferred to a virtual consultation with doctors – while always ensuring quality of care.

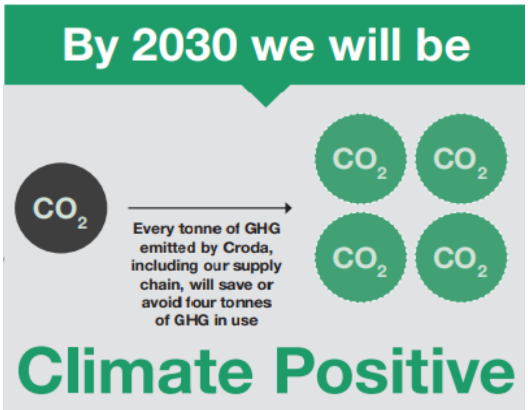
- The platform makes use of artificial intelligence, meaning the database continues to be built with additional cases. This constitutes a low cost and scalable solution for quality care and extends the efficiency benefits to the entire healthcare ecosystem by allowing better sharing of medical data between the relevant parties. This technical focus and innovative approach is unique amongst medical services companies, giving Ping An strong Additionality of 5/5.
- As visible in the current environment, such solutions can constitute a valuable relief to hospitals and healthcare workers – the platform has observed a 1100% increase in members in January and an English version is under development. Moreover, Ping An directly responds to the sub-goals of SDG 3 around healthcare prevention, but also worker density and distribution. For these reasons, we believe the company's Potential is strong (5/5) – making it a welcome addition to the Health & Wellbeing theme.

Engagement activity during Q1 – Case Study: Croda International Plc

Engagement activity during Q1 – Case Study: Croda International Plc

- Q1 was an intensely busy period for the Positive Impact team on engagement. We refreshed our entire Impact Engagement Framework and by the end of February had completed thorough reviews with all 34 portfolio companies. The results of the updated framework will be covered in a white paper in April to be circulated to all our distribution list and available on request.
- The Impact Engagement Framework permitted us to touch base with a wide range of companies, big and small, across a variety of industries and countries, but all interactions sharing the same standardised topics. The strength of this approach lies in its repeatability and the guidance it offers to any new companies we engage with.
- One company we had been pushing to improve their measurement and disclosure was Croda. The team has followed the company for decades, and we are aware of the positive impact credentials of Croda. However, it has been difficult to latch on to a key measurement that best reflects the output benefits the company's products bring to its customers. The tendency of some companies to opt for case studies in place of group wide measurement is a slightly frustrating feature of sustainability. Case studies are, of course, valuable in terms of the bottom up insight they offer. But they cannot take the place of holistic impact measurement, a disclosure that is far more time consuming to deliver, requiring greater intentionality from the executive team and investment by the organisation.

- In a call with Conleth Campbell (IR) and Phil Ruxton (VP, Sustainability) we were made aware of a significant gear shift by the company during 2019. Croda has been reporting under GRI standards since 2009 but in 2018 the executive team took the decision to put in place a much more ambitious sustainability strategy running to 2030, with the help of the Cambridge Institute for Sustainability Leadership.



- The main areas that relate most closely to Croda include fossil fuel derived input materials, scope 3 emissions and biodiversity and land degradation. Subsequent to our engagement, the company published its 2019 Sustainability Report in which they set out their 2030 goals, massively increasing their impact aspirations.

- Under the title '**Smart Science to Improve Lives -** Climate Positive, Land Positive, and People Positive', the company focused on key aspects of each area in setting its 2030 targets.

- Among their 2030 targets the company aims that for every tonne of GHG emitted by Croda, including their supply chain, they will save or avoid 4 tonnes of GHG in use of their products. The company will be engaging with key suppliers to encourage emissions reductions in supply chain. On scope 3 Croda invited 133 suppliers to respond to the CDP Climate Change questionnaire. They received a 43% response rate (a contrast with our own engagement work in early 2020), although this was a 47% increase since 2017. But only 7 suppliers have an absolute emissions reduction target. The company will be rolling out an internal carbon pricing mechanism and demanding all their locations create decarbonisation roadmaps.

- Croda has been working intensively with Carbon Smart to aggregate individual case studies together to provide an overall carbon cover ratio, i.e. the amount of carbon that is saved through the use of their products as a ratio of our organisational carbon footprint (scopes 1-3).

- One final highlight within the 2030 strategy focused on being people positive concerns the WHO list of 24 diseases for which vaccines are in the pipeline – Croda targets the successful development and commercialisation of 25% of this list by 2030.

Outlook

- During a most tumultuous quarter for all markets, the Positive Impact fund did well to protect investors in the worst days of the sell off. To deliver impact investing in listed markets authentically, the portfolio has higher valuation multiples and higher growth characteristics vs the broad indices, it also owns few GDP plus large cap stocks. We would concede that this makes the strategy potentially open to underperformance if we encounter a growth scare. The fact that this did not occur and that the portfolio held up well is a reflection of the backtesting analysis on positioning we conducted before launching the fund, which at the time concluded that over the long term, a Positive Impact fund is less likely to be highly volatile in market sell-offs.

- We do believe that whilst there may be a delay to some of the global efforts being made to achieve the UN Sustainable Development Goals, these will remain policy priorities. If anything, the shocking spread of the Coronavirus is a wakeup call to the champions of globalisation, by illustrating the weaker side of a globally connected world. We would expect investment in more beneficial practices both for people and the planet to be a growing focus once economic reality can reassert itself, but equally we are not sure that economic normality will ever return.

- To this end we are pursuing a dual focus with the Positive Impact fund. On a day to day basis we are checking with our investee companies that they have sufficient liquidity to see them through these difficult times. Then we are also working more conceptually on where we believe new areas of Positive Impact will appear out of this global pandemic.

Recommended Reads

- **Book** - ‘Energy: a beginner’s guide’ – Vaclav Smil
  Vaclav Smil is one of Bill Gates’ idols, according to Gates; Smil taught him everything he knows about energy. That is high praise indeed.

- **Documentary** – ‘Our Planet’ – David Attenborough on Netflix. Needs no introduction.

- **Journalism** – ‘Tip of the iceberg: is our destruction of nature responsible for Covid-19?’ A joint effort between the Guardian and Ensia on biodiversity loss and the emergence of new viruses https://ensia.com/features/covid-19-coronavirus-biodiversity-planetary-health-zoonoses/

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and intended only for the use of the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group ("UBP"). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Qualified Investors in Switzerland, or Professional Clients, Eligible Counterparties or an equivalent category of investors as defined by the relevant laws (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person at whom or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty, and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. Past performance is not a guide to current or future results. The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not represent forecasts or budgets but are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. None of the contents of this document should be construed as advice or any form of recommendation to purchase or sell any securities or funds. This document does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund they relate to, or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances and may be subject to change in the future. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and to seek professional financial, legal and tax advice. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this document may be recorded. UBP will assume that by calling this number you consent to such recording. UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287–289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Elysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.