Q3 2020

UBAM - POSITIVE IMPACT EQUITY

Quarterly Comment

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

Sustainability & Market Review

- The surreal existence of life under Covid-19 continued in Q3 as summer travel restrictions gave way to autumn, infected presidents and some more encouraging initiatives. As ever, we hope all our readers are remaining healthy and insulated from the worst of the negative effects of the pandemic.

- Focusing first on the major announcements of Q3, China's pledge to become carbon neutral by 2060 is a significant step forwards for a number of reasons. First, Xi Jinping has upstaged the other major emitter, the US, by setting official policy on this path, however far in the distance. Perhaps more significantly, this move is the one of the first commitments towards neutrality from an economy that could still be defined as developing. The argument that developing economies should first be permitted to industrialise before curbing their emissions is often cited as justification for the construction of coal-fired energy plants. However, this pledge from China, indicates that growth and emissions curbs are not mutually exclusive. Finally, the policy shift will further propel the redirection of investment capital globally (already bolstered by the 30% of the EU Recovery plan dedicated to green solutions) towards cleaner energy solutions; a required step if areas like hydrogen are to become truly green and cost competitive alternatives.

- Another area of complexity that is often cited as a reason not to reform business practices is the lack of standardisation. For example, the banking industry has thus far found it deeply uncomfortable to offer any real loan book disclosure. It is therefore encouraging to see that Morgan Stanley announced it would use Partnership for Carbon Accounting Financials to develop an accounting framework focused on disclosing how much its loans and investments contribute to climate change. As evident in other areas of finance, for example, the EU Taxonomy, it is meaningful that banks are beginning to tackle their own disclosure challenges.

- Investors in sustainably responsible funds often wish to see the link between the 'mission' and what is happening on the high street. To this end, there is encouraging data published by The Stern Center for Sustainable Business (with the University of New York) which shows that sustainably accredited consumer goods have continued to grow their market share. This trend continuity during the economic disruption of 2020 builds on the eye-catching observation that sustainability-linked packaged goods drove 55% of the overall US market growth from 2015 to 2019 despite commanding an average 39% premium.

- Finally, it is well understood that the sustainability agenda requires collaboration from a number of key stakeholders. One of the blockages comes from the existing scope of fiduciary duties among decision makers for pooled investment funds, e.g. trustees of pension funds. A move by a group of US Pension funds (overseeing $1tn) to classify climate change a systemic financial risk is an important step.

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.

- This broadening of the scope of trustees to include an assessment of environmental and social implications within the choices they make on behalf of scheme members is a positive development and one that is mirrored in the UK where NEST (UK occupational pension scheme) is planning on investing £5.5bn of its £12bn in climate friendly strategies. The full impact of this strategic change is still to be felt in the future, for example the NEST fund is forecast to increase to £100bn by 2039. Similar efforts are evident elsewhere in the long-term savings market, for example with the launch of Make My Money Matter by a vocal group of influencers including Richard Curtis and Mark Carney.

- After a strong Q2 with widespread positive performance, the third quarter of 2020 shows regional disparities reflecting the local evolutions of Covid-19. Indeed, as the different containment strategies yield their results, the spread of the virus is not uniform across countries and stimulates a range of economic responses – resulting in different market performance between regions.
  The gap between growth and value stocks also persists as growth companies are up +19.2% year to date while value is down -14.1%, in Europe. A cold winter without enough positive vaccine development news would be negative for value stocks and widen the gap further.

- In year to date terms, the S&P 500 is the leading index with +5.6% return followed by MSCI Emerging Markets Index with flat performance and ahead of the MSCI Europe ex-UK index displaying -7.4% returns. The lack of progress of Brexit negotiations and the fading fiscal stimulus causes the UK to lag, with the FTSE All-Share Index down -19.9%. Following the Internal Market Bill which seeks to modify the terms of trade between the UK and Northern Ireland, the most likely Brexit scenario is a limited free trade agreement with significant arrangements to ease the transition.

- While hospitalisations in Europe and the UK seemed under control during the summer, the effect of travelling abroad for the holiday season led to a new rise in the number of cases – most notably in Spain, France and the UK. This fuelled concerns that dropping temperatures in Autumn could lead to a second wave of Covid-19 and caused European equity markets to lag as the MSCI Europe ex UK Index returned +1.8% and the UK FTSE All-Share Index was down -2.9% this quarter. The worsening sentiment is also displayed by volatility levels – the VIX index has increased to the 25-35 range during September compared to the 20-25 levels in June and July.

- The United States experienced a rise in cases at the start of Q3 but thanks to the use of face masks was able to reduce hospitalisations significantly from the end of July. Combined with the transition to online commerce, this resulted in strong performance from US technology and growth companies for most of the quarter. Unemployment also displayed a modest reduction, but as valuations expanded and the risk for a vaccine-driven rotation increased in September, the market slowed down to favour cheaper stocks. This resulted in a quarterly return of +8.9% for the S&P 500.

- Emerging markets performed strongly too as the MSCI Emerging Markets Index returned 9.7%. Similarly, MSCI Asia ex-Japan was a notable performer of the quarter with 10.8% returns, stimulated by China's success in containing the virus after the first wave.

- All indices are total return in local currency, except global ones in US Dollars.

Performance Review

Investment Theme	Average Theme Q3 Performance
Basic Needs	12.11%
Health & Wellbeing	10.42%
Inclusive & Fair Economies	5.49%
Healthy Ecosystems	13.98%
Sustainable Communities	13.26%
Climate Stability	20.00%

- The fund enjoyed another positive quarter with a return of +10.7% (net of fees, IC EUR share class). This compares favourably against most indices, with the MSCI World Index returning +3.4%, the MSCI Europe NR returning +0.1% and the S&P 500 returning +4.5% over the period (All in EUR).
- As regular readers will know, we typically assess sector performance through our 6 investment themes. It is interesting to note that in Q3, the environmental themes all outperformed the social ones. This is in part driven by climate and the associated 'fixer' companies being at the centre of many national recovery packages, as covered in last quarter's report.
- Siemens Gamesa (+46%), Kingspan (+35%) and Arcadis (+15%) were notable leaders.
- Only a handful of names printed a negative return in the quarter, with weak performance on the whole being related to style bias i.e. the more 'value' names in the fund. DS Smith was particularly weak (-10%) due to this, with the additional stock specific pressure of being in the waste management segment, which has received some pressure from municipalities who are in turn being forced to make difficult budgetary decisions about recycling.
- Ping An also gave back some performance (-19%) in the quarter as the market absorbed news of management change and also a large primary issue. We don't feel concerned by these events and continue to be excited by the prospects of the business.

Portfolio Activity

- During Q3 we initiated 2 positions; Nano-X Imaging LTD and Signify NV (see thematic focus section). We also increased our holdings in Ping An Healthcare and in Ceres Power where in both cases the growth potential warrants a higher weighting in the fund.
- We bought Nanox Imaging in the IPO In August. The company bought into an R&D project 8 years ago, which was originally begun by Sony of Japan. NanoX has subsequently developed the technology with the intention of offering more transportable, lower cost X-ray imaging. As 2/3 of the world's population currently has no access to imaging facilities, any future success that Nano-X has with this technology will bring a huge improvement to healthcare among poorer countries. The IPO was very successful, and the shares rose over 150% since coming to the market. We considered it prudent to take profit and reduce the position size and did so throughout the end of August and September.

- There were no outright sells in Q3. We did reduce our exposure to Hexagon Composites ASA after a very strong run in the shares and to ensure the position size remained within the framework of our position sizing model. We also sold down exposure to Siemens Gamesa Renewable Energy SA. The stock has performed well, however the team has a number of concerns regarding an ongoing ESG concern. The company runs maintenance operations on wind turbines in Western Sahara (0.2% total capacity). This is a complex issue as in spite of it concerning a small percentage of revenue, the region is contested territory and Siemens Gamesa are accused of not consulting local communities before commencing work. The company's stated intentions are strong, but their actions don't entirely support this. We continue to engage with the company, but as per our commitment to our engagement escalation process, it was an appropriate time to reduce the holding size until more clarity/progress is achieved.

Quarterly Thematic Focus:

- In light of the recent news flow coming from the European Commission, this quarterly focus examines the fund's largest environmental theme – Sustainable Communities. Linked to the SDGs 11 ("Sustainable Cities and Communities") and 12 ("Responsible Consumption and Production"), it addresses a number of key areas outlined by the 2030 Climate Target Plan and the 2050 climate neutral objective.

- These European initiatives target tangible short to medium-term results but ultimately seek long-term change to reduce greenhouse gas emissions and develop green technologies. As such, the urban environments and communities in which we live must undergo fundamental transformations, fuelled by more sustainable ways of production and consumption. These values are reflected by the companies which constitute our Sustainable Communities theme – from circular economy enablers like Tomra Systems ASA who provide municipalities with waste collection solutions, to environmental planning consultants such as Arcadis, but also new technology developers like Hoffmann Green which manufactures low-carbon cement. While the most advanced policy efforts are currently mainly seen in Europe, other geographies display similar intentions, as visible with Ecolab, an American company driven by resource efficiency which provides clean and responsible water use solutions. All of them are fixer companies in their respective industries which contribute to the necessary transitions and allow our society to be one step closer to being carbon neutral by operating a sustainable economy.

- This is an opportunity for us to introduce one of the latest additions to the fund – Signify NV, the world leader in lighting which provides energy efficient products (LEDs) and light as a service. The company's high level of Research & Development spending (4.8% of sales) reflects the need for sustainable innovations even in more traditional and established industries because sustainability objectives require action to be taken by all sectors of the economy. Indeed, in the case of Signify, the need for sustainable lighting is in line with the Green Deal's objective to ensure buildings become more energy efficient but also addresses the growing demand for light due to increasing population and urbanisation. LED lights can reduce energy consumption by up to 80% and while today, lighting accounts for 13% of the world's electricity demand, the global shift to LEDs will lower this to 8% despite the growing consumption – significantly improving energy needs.

- Moreover, Signify has identified a number of areas where light can have a positive impact. The company is actively involved in street-light systems for major global cities allowing to improve personal safety by 20% and reducing traffic accidents by 30% but also designed a range of solar lanterns and home lighting systems that enable off-grid communities to access safe, renewable lighting after dark. Similarly, linking back to our previous thematic focus on food accessibility and efficiency, the company developed indoor lighting for use in vertical farming systems such as hydroponics. The controlled indoor environment allows to grow food close to consumers throughout the year and precise 'light recipes' lead to higher yields, better nutrition and less waste.

- Operationally, Signify displays very strong ESG credentials and a proactive strategy. A new sustainability programme was published in September 2020, just a week after reaching carbon neutrality, aiming to double revenues from positive impact areas (as defined above) and revenues derived from the circularity of light. This is defined as the way the company owns, reuses and recycles its products.

- Such strong credentials have given Signify an IMAP score of 16, reflecting best in class intentionality and excellent potential – and making it a welcomed addition to the Sustainable Communities theme.

Engagement Focus

- This quarter again, the Impact team pursued an active agenda of engagement with both portfolio companies and new prospects. Thanks to the ongoing nature of the bilateral investigation work which now builds on several years of exchanges, strong relationships exist between our investment team and many companies.

- As displayed in the first version of the Impact Engagement Framework in early 2020, our engagement approach is constructive and often mutually beneficial – we can extract precise information and essential bottom-up measurement from an interaction while providing guidance to management teams, by indicating how industry peers operate and what investors look for. There is no alternative way of generating these outputs because the information that is shared is not available online or from data providers. This strengthens the need for a collaborative environment for the successful progression of sustainability oriented and Positive Impact strategies.

- Collaboration is a broad concept in the context of engagement because it materializes at very different, yet always interlinked levels. A stakeholder engaging with a company, a stakeholder engaging with another investor, companies engaging with each other, or all of the above engaging with an industry or academic body – but always with the ambition of stimulating positive top-down (and often bottom-up) changes. These developments can take the form of working groups, the publication of articles and white papers or educational events as organised by UBP's Impact franchise at the end of this quarter.

- The event was presented by both the Positive Impact Equity and Positive Impact Emerging Equity funds and focused on the characteristics of Impact Investing in the listed equity space. Recent developments of the Impact franchise were introduced, and the unique investment process was explained through the IMAP scoring process. Reflective of the power of engagement, we were delighted to feature a guest company from each fund: Safaricom PLC and Hoffmann Green Cement Tech SAS.

- The companies presented their sustainability journey and the way their business, through their product and services, respond to a global issue as set out by the UN Sustainable Development Goals and generate a positive impact. This creates a unique but refreshing kind of conversation, led through the lens of environmental/social initiatives and of non-financial data.

- It allowed us to present the impact KPIs that we follow for each company, over time and in a standardised way. Safaricom's network covers 96% of the Kenyan population with 2G, and we track that 3 out of 4 adults use their M-PESA system for financial transactions, on average 13 times per month. On the other hand, Hoffmann's green cement reduces CO_2 emissions of cement by 80%, from 881kg of CO_2 per tonne of cement produced down to 188kg. Thanks to engagement, we gained a better understanding of capacity expansion ambitions and we can calculate an estimated yearly saving by 2024 equal to 381,150 tonnes of CO_2, which corresponds to the annual emissions of 83,000 cars.

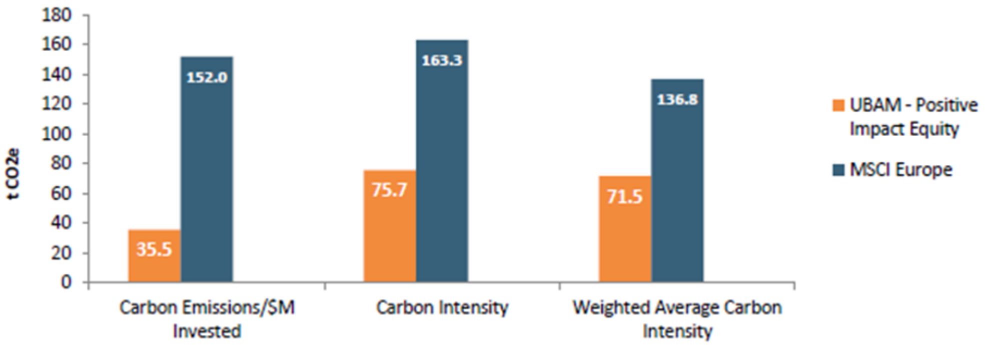
- The event demonstrates our ambition to develop Impact practices and raise awareness with other industry players but, importantly, also underlines the need for and benefits of transparency. By presenting sustainability ambitions and objectives to a multitude of end-asset owners on such a platform, the companies are given a sense of accountability and direct feedback that they rarely encounter. Moreover, when we present our IMAP score and engagement findings for the company to an audience that includes the company itself, it reinforces the fact that our investigative work must yield accurate and reliable information, and that the relationship with corporates must be able to withstand challenge and scrutiny.

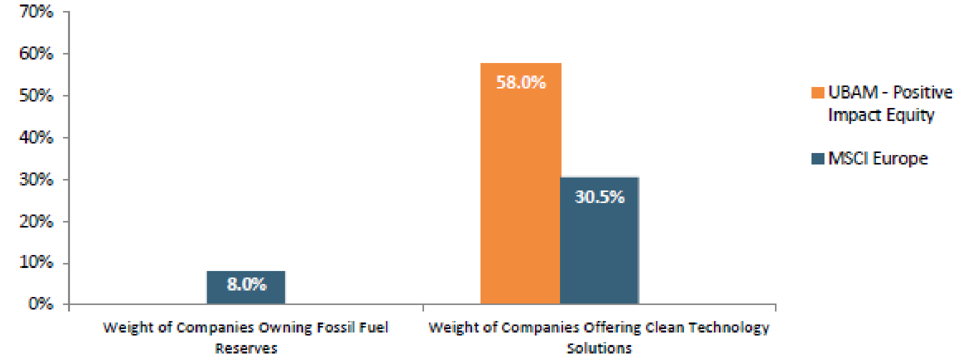
ESG Monitoring

Human rights

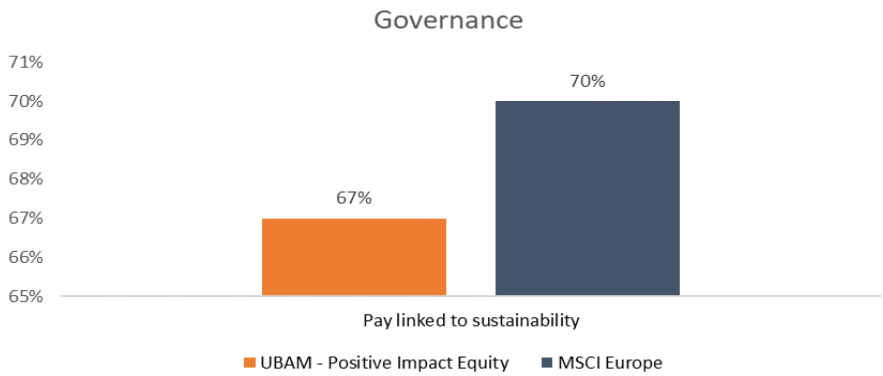
	UN Global Compact			Human Rights Compliance			Labour Compliance - Core			Labour Compliance - Broad		
	Pass	Watch	Fail	Pass	Watch	Fail	Pass	Watch	Fail	Pass	Watch	Fail
UBAM - Positive Impact Equity	32	1	0	32	1	0	33	0	0	33	0	0
MSCI Europe	391	37	8	409	26	1	427	9	0	423	13	0
UBAM - Positive Impact Equity	97%	3%	0%	97%	3%	0%	100%	0%	0%	100%	0%	0%
MSCI Europe	90%	8%	2%	94%	6%	0%	98%	2%	0%	97%	3%	0%

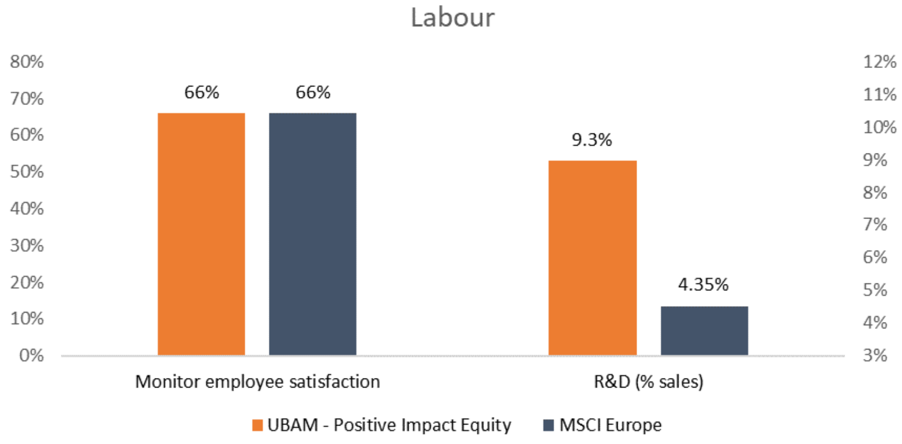
Environment





Governance





Source: MSCI as of 30.09.2020

Outlook

- Q4 2020 will witness a number of significant events. At the start of the quarter it seemed possible that the US Presidential election may see some kind of delay after the announcement from the Republicans that President Trump had tested positive for Covid-19.

- However, his discharge from hospital on 5th October would suggest that the election will go ahead as planned, despite the fact that so many of the presidential team are currently carriers of the infection. The result of the election will have long term ramifications for stimulus packages and also future taxation rates. In Europe, an end to the Brexit negotiations will happen one way or another and we would expect this clarity to actually lead to an appreciation of the Euro given that there will at least be a base of fact on which to build policy in the bloc. However, more broadly, the outlook looks constrained like a straight jacket. On one side, conditions will not be permitted to deteriorate for the economies of the world at large. However, on the other side, were we to witness substantial improvements we would expect finance ministers to start to focus on measures to pay for the financial support they offered during the tough days of 2020.

- This narrow path of travel will surely lead to a need to focus on strongly capitalised companies that offer some control over their own destinies. Overriding all of this is the observation that governments have reached for the Green and Social Agendas when looking to reflate their economies. This has proven hugely influential in the challenge of scaling up a less harmful industrialised world, a trend which provides a strong following wind for investors in Positive Impact companies and the fulfilment of the UN Sustainable Development Goals.

Recommended Reads

Reads:

- **Eat like a fish – Bren Smith**
  The story and vision of a former fisherman turned restorative ocean farmer. A very uplifting and unusual read.

- **Impact: Reshaping capitalism to drive real change** - Ronald Cohen
  A practical and pragmatic attempt to create a roadmap for the kind of world we want to live in. An inspiring read, from the “father of social investment”.

Podcasts:

- **" Investing in Regenerative Agriculture "** - Koen Van Seijen
  A regular and informative podcast which covers topics far more broad than the title would suggest. Particularly interesting episodes on the relationship between soil health and human health and the role of robotics in regenerative agriculture.

Watch:

- **“A life on our planet” -** David Attenborough
  Attenborough’s witness statement and vision for the future. This is an unmissable film, imploring us to work with nature rather than against it and crucially providing some optimism and motivation!

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