
# 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*

- Q1 2024 turned out to be the best Q1 performance in five years for global equities, with the MSCI ACWI* returning 8.1% in USD, boosted by hopes of a soft economic landing, enthusiasm about AI, as well as anticipated central bank rate cuts. Despite diminished expectations for Fed rate cuts, from 5-7 implied to 3 at best in 2024, the prevailing narrative leaned toward a soft landing, supported by robust economic releases.

- Despite very low volatility in equities, the market witnessed very elevated volatility in Fed rate expectations, with initial positioning pointing to a 70% chance of a March interest cut but as inflation remained elevated coupled with solid activity and strong labour indicators, the US Fed eventually announced no change in key rates during their March, effectively pushing out expectations to at least June.

- The threat of interest rates staying higher for longer helped large caps maintain their leadership in the market, with the MSCI ACWI Large Cap Index* up 8.6%, against the MSCI ACWI SMID Cap Index* up 4.9%. Nevertheless, what began as only a tech-driven rally gradually broadened out across the quarter. In terms of style, the MSCI World Quality Index* returned 11.6%, which was both ahead of the MSCI World Growth Index*, up 10.2%, and the MSCI World Value Index* up 7.5%. Looking at sectors, unsurprisingly IT and Communication services led the markets, but Energy, Financials and Industrials were strong as well helping the S&P 500 Index slightly outperform the tech-heavy Nasdaq Index. On the negative side, Real Estate was the only sector that generated negative returns.

- Performance across regions was generally driven by North America, followed by Japan, Europe and then Emerging markets. The US, using the S&P 500 Index* as a proxy returned 10.5%, but for a change not all "Magnificent 7 performed well, with both Apple and Tesla ending the quarter in negative territory. Japan was another notable standout, with the MSCI Japan Index* up also 10.5% in USD terms over the period. The MSCI Europe Index* underperformed relatively but was up 5.2% over the quarter, as similar prevailing market concentration levels also broadened towards the second half of the quarter. Finally, the MSCI EM Index* was up only 2.1%. On the brighter side Taiwan performed quite well in the region, driven largely by TSMC and other AI-related stocks, but on the other hand, China continued to drag emerging equities down, given ongoing concerns about its growth prospects, geopolitical risks and the absence of meaningful fiscal stimulus measures. Nevertheless, its market rebounded from its January lows on the back of better economic activity data, some easing monetary measures and a general pivot from companies to increase shareholders' returns via dividends or share buybacks.

- On the sustainability side, The International Sustainability Standards Board (ISSB) has issued what is quickly becoming a global standard either to create or supplement disclosure rules in several jurisdictions, offering hope of greater global comparability. Yet, although the European Union has indicated support for ISSB, the bloc is in the process of negotiating its Corporate Sustainability Due Diligence Directive, which plays a very similar role to the ISSB standards.

** net total return index, local (USD for Global & EM)*

*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*

- European equities had a strong start to the year. First, the combination of more relaxed monetary policy expectations and stable economic data was the primary driver of January returns. This led to a relatively concentrated market which resembled the American landscape: Information Technology (IT), Communication Services and Consumer Discretionary leading sector gains through growth oriented, large capitalisation names.

- Then the focus changed as the earnings season got underway. Companies' full year results momentum and forward-looking outlooks took over macroeconomic sentiment, and fundamentals became the driver of performance. This changed the market dynamic with Energy, Financials and Materials noticeably leading, while the outperformance of value and the small- and mid-cap segments reflected a style rotation.

- Overall, the MSCI Europe Index returned 7.63% for the quarter while UBAM Positive Impact Equity returned 4.87%. The portfolio's lower technology and luxury exposures weighed on relative performance at first, but the increased market breadth that followed was beneficial. In fact, the fund experienced a noticeable stabilisation during the second half of the quarter, but the growth and large cap sides of the market had moved too far ahead to be caught up with.

- Stock selection in Information Technology, Financials, and Consumer Discretionary was a source of weakness during the quarter. Negative contribution to relative performance came from energy provider EDP, insurance company Prudential, wood products company UPM, and digital meter provider Landis & Gyr. EDP was penalised by the earnings decline of its renewable subsidiary despite decent performance of other segments and a now depressed valuation, Prudential reported strong growth from new business but the market is concerned by upcoming cost development and impact on cash, UPM was impacted by Finnish strikes and a heavy maintenance schedule despite earnings being supported by a new mill ramp-up, and Landis & Gyr suffered from a discounted share offering.

- This was partially offset by positive allocation and selection effects in Consumer Staples and Industrials. The main positive contributors to relative performance were HVAC company Trane, packaging company DS Smith, UK bank Natwest, and electrification industrials Spie and Prysmian. Trane benefited from the continued delivery of strong results supported by solid demand for energy efficiency solutions from customers, DS Smith's shares jumped after a takeover offer from Mondi which was subsequently counterbid for by International Paper, Natwest benefited from better sector dynamics thanks to slower rate reduction expectations but also gave positive messaging on future share buybacks, and both Spie and Prysmian continued to experience strong momentum supported by electrification and energy efficiency trends.

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*Portfolio activity:*

- The portfolio managers added three new holdings during the first quarter:

  - Elis (Sustainable Communities, IMAP score 13) has very strong market positions in its key markets in Europe and Latin America, providing laundry services to the hospitality, health and industrial sectors. By centralising laundry functions for their clients and using their industrial know how, they are able to make significant savings in the use of energy, water and materials. The company is well placed to capture organic growth due to strong outsourcing trends at their customers, complimented by inorganic expansion in targeted markets. It should also make further progress in expanding its operating margins thanks to strong pricing power and falling costs.

  - Aixtron (Inclusive & Fair Economies, IMAP score 14) is a semiconductor equipment company providing equipment for the manufacturing of compound semiconductors which provide significant energy consumption savings in particular in power electronics. The company is very strongly positioned to benefit from increasing orders across a range of end markets. Valuation is attractive as significantly below its five-year average P/E.

  - Convatec (Health & Wellbeing, IMAP score 14) is a global medical products and technologies company focused on specialised markets like wound care, critical care, and infusion devices. With a high proportion of products used to treat chronic conditions, Convatec’s revenues are defensive but also sticky as patients use their products for up to 15 years. The company is experiencing an improved product mix and has an exciting pipeline of new launches coming in the next few years.

- We added to our existing positions in Spie and ASML. Spie reported strong results and a positive outlook for 2024 while trading at an attractive valuation. ASML reported extremely strong order bookings which indicated the start of the upcycle and de-risked 2025 growth and beyond.

- The managers made full exits of two holdings on the fund: automotive component manufacturer Valeo and salmon farming operator Salmar. For Valeo, this was the result of a general loss of confidence in the sector due to competition and slowing EV ramp-up, but also in the company’s ability to generate better returns in the short and mediums terms given the restructuration and historical profitability. Salmar was sold in light of sustainability concerns around aquaculture.

- Elsewhere in the portfolio we trimmed our holdings of a number of companies which had seen a strong improvement in relative returns in order to control their weightings and overall contribution to risk: notably pharmaceutical packaging company Gerresheimer, private market manager Partners Group, cable manufacturer Prysmian, and pharmaceutical companies Alk Abello, and Uniphar. We also trimmed Vusiongroup following strong gains since October 2023 and given tough comparatives for the first half of 2024, and banks Nordea and ING after they recouped a significant part of the declines seen after their full year 2023 results.

*ESG Monitoring*

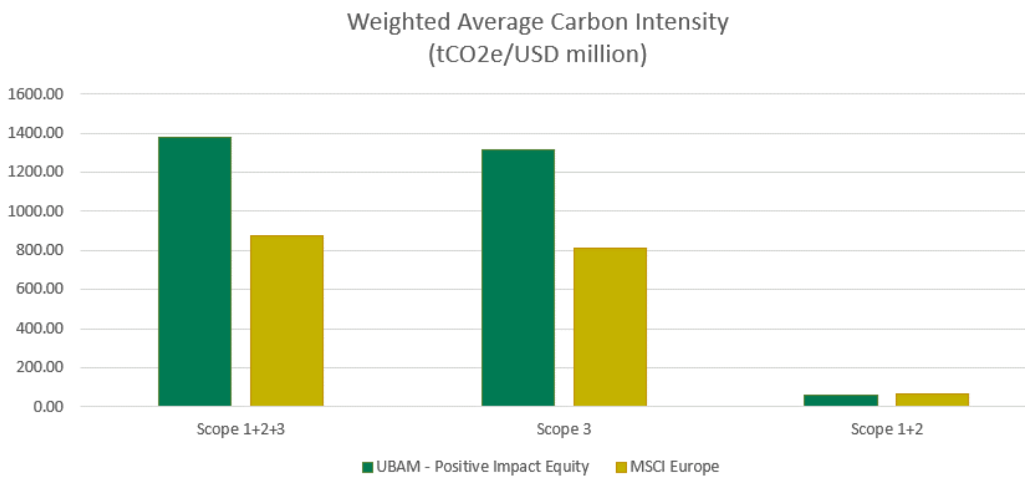
*(MSCI methodology provided in the appendix)*

➢ **Human rights and Social** (Disclosure: Fund 98.0% / Index:100%)

| | UN Global Compact | | | Human Rights Compliance | | |
|---|---|---|---|---|---|---|
| | Pass | Wathlist | Fail | Pass | Watchlist | Fail |
| UBAM - PIE | 48 | 0 | 0 | 48 | 0 | 0 |
| MSCI Europe | 391 | 29 | 0 | 394 | 26 | 0 |
| UBAM - PIE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI Europe | 93% | 7% | 0% | 94% | 6% | 0% |

| | Labour Compliance - Core | | | Labor Compliance - Broad | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - PIE | 48 | 0 | 0 | 48 | 0 | 0 |
| MSCI Europe | 411 | 9 | 0 | 405 | 15 | 0 |
| UBAM - PIE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI Europe | 98% | 2% | 0% | 96% | 3% | 0% |

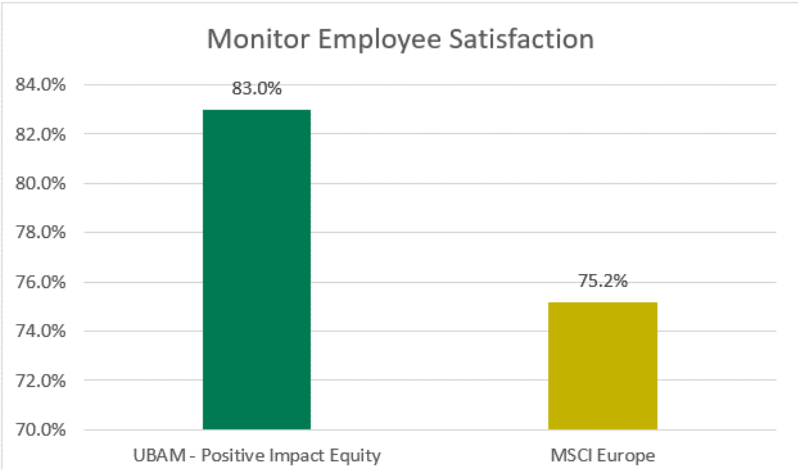
➢ **Environment**
(Public Disclosure: Fund 95.0% / Index: 99.0%, Coverage Including estimates: Fund 100% / Index 100%)



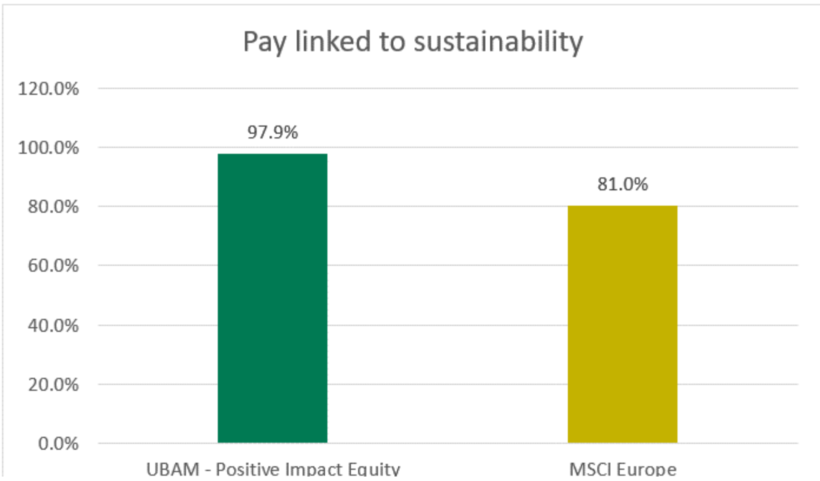

**Carbon Intensity metric:** UBAM - Positive Impact Equity aims to beat the benchmark (MSCI Europe) for this metric

The fund beats its benchmark on a scope 1&2 basis. If we include scope 3 emissions, the Weighted Average Carbon Intensity of the benchmark is lower than for the fund. This situation suggests a significant change from previous reporting, especially on the benchmark side, requiring further analysis from the portfolio managers. Scope 3 emissions are an important part of any analysis of GHG emissions, but they are also hard to estimate and a few outliers can lead to significantly different portfolio levels. There are also cases in which scope 1, 2 &3 emissions do not capture the full benefit of certain products. We will report on our conclusions in the next quarters.


- **Labour** (Disclosure: Fund 95.9% / Index: 100%)




- **Governance** (Disclosure: Fund 95.9% / Index:100%)




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



## *Outlook*

- Market sentiment remained buoyant globally in Q1, and the consensus expects a continuation of the current environment with a strong US economy and inflation under control although interest rates cuts expectations have been tempered during the quarter. Sentiment surveys point to a bullish consensus outlook but not to an extreme extent.

- UBP’s house view is that the strength of the US economy is challenging recent disinflationary trends and thus delaying expectations of rate cuts from the Federal Reserve.

- Despite the constant reference to the “Magnificent 7”, Q1 witnessed a relative broadening of market performance, and we believe this could be a continuing trend for the rest of the year. The small- and mid-cap segments to which we have significant exposure is trading at a significant discount to the larger names and has a lot of room to catch-up with the rest of the market. The better relative performance of the Industrial sector since Q4 last year is also a supportive factor and could continue in the current macro context.

- On the sustainability front, we were hit by the double whammy of disappointing developments on the regulatory front which led to a more uncertain outlook for electric vehicles and renewable energy on one hand, and truly alarming temperature readings in many parts of the world on the other. This difficult situation is compounded by the fact that we have another US election on the horizon, where the climate will be, unfortunately, another dividing issue. Despite that, it is important to remember that the long-term trend for emissions reductions in the US is clear, and the level of low-carbon energy deployment at the global level continues to accelerate. Our outlook on this is unchanged: those trends will have to continue, and that will open opportunities for companies in our portfolio.


*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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