UBAM – BIODIVERSITY RESTORATION

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

- Over the quarter, the biggest biodiversity summit in history, COP15, has delivered a new deal for nature; delegates committed to protecting 30% of land and 30% of coastal and marine areas by 2030, fulfilling the deal's highest-profile goal, known as 30-by-30. Business representation was extensive and vocal in calling for biodiversity disclosures to become a requirement and advocating for increasing transparency.
- 2022 was a very difficult year for markets and highly unusual in the sense that it was only the third time in the past century that major equity and bond indices produced negative returns in the same calendar year. In contrast to 2021 which was fuelled by extraordinary levels of monetary stimulus the year started with a clear commitment from the Fed to address inflationary pressures by raising rates and setting out a plan to withdraw quantitative support. Subsequently we have seen a fast pace of rate hikes in the US which has been followed by central banks globally.
- Inflation has proven to be very ‘sticky’ rather than transient as many had hoped and we ended the year with a clear expectation of further rate rises and quantitative tightening to come despite weaker economic growth becoming apparent. Markets have also been absorbing elevated geopolitical risks after the shocking invasion of Ukraine which has created huge volatility in energy, agriculture, and commodity markets. The supply side issues that came to light during the covid pandemic continued to cause shortages and disruption not least because of China’s self-imposed measures as it continued to attempt to contain the spread of infections.
- Unsurprisingly the tightening of monetary conditions has had the greatest negative impact on the assets that had become most inflated by the previous unprecedented level of stimulus and the bull market leaders became the bear market laggards – notably technology, pre profit growth stocks and cryptocurrencies. The worst performing areas aside from technology, were those exposed to interest rate sensitivities such as real estate and consumer stocks and unsurprisingly the best performing sectors was energy.
- It is natural to expect the corporate sector to suffer as economies experience recessionary conditions, but earnings have been remarkably resilient so far given the strength of macro headwinds. It is notable how many companies have proven adept at passing on higher costs to consumers particularly those with strong brands and hence good pricing power.

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

- During the fourth quarter of 2022 the UBAM – Biodiversity Restoration climbed by 10.14%, compared to a return of 9.76% from the MSCI All Countries World*.
  ** net total return index*

- During the final quarter of the year, our exposure to companies in key industrial verticals in the fund such as Sustainable Food Production, Green Cities and Urban Spaces, and Enablers of Change proved to be particularly positive. Top contributors to relative returns included Deere (sustainable food production) and AGCO (sustainable food production), GEA Group (sustainable food production), Arcadis (green cities and urban spaces), Impax (enablers of change), and Badger Meter (enablers of change). Our lack of exposure to large cap technology companies also contributed positively to relative returns as the technology sector continued to lag the broader index.

- In terms of individual stock contributors, Deere reported strong full year results in November and confirmed a positive outlook for 2023, buoyed by strong farm incomes, an extended average age of the fleet and improved supply chain dynamics. AGCO share performed strongly into the end of the year following an investor event where the management team upgraded the company’s mid cycle margin target and delivered a similarly positive outlook for 2023. GEA Group delivered strong third quarter numbers, confirming their strong pricing power, and upgraded full year guidance. Impax benefited from improved market levels but also a confirmation of strong full year results, aided by resilient flow data and strong cost control. Finally, Badger Meter reported third quarter results that were well ahead of market expectations driven by strong demand for its smart water solutions.

- The main detractors to relative returns in the fourth quarter included Advanced Drainage Systems (planet compatible utilities), Darling Ingredients (circular economy), Trimble (enablers of change), and Waste Management (planet compatible utilities). Advanced Drainage Systems underperformed the market on concerns about destocking in its Infiltrator division and despite maintaining full year guidance. Darling Ingredients’s operations were impacted by exceptionally warm temperatures during the third quarter, meaning that results fell short of expectations. Trimble suffered on the back of a weaker than expected third quarter results and the announcement of a sizeable software acquisition. Waste Management consolidated previous strong gains as investors reflected negatively on an inline quarterly earnings report and declining recyclate prices.

Portfolio activity:

In the context of the evolving market narrative, the managers continued to balance exposure between defensive companies benefiting from stable returns and stocks where the growth story remains intact. The focus on valuation multiples and operational momentum remains strong.

In light of this, the following positions were disposed of:

- Tattooed Chef – Was held in Restore, Planet Friendly Diets as a provider of healthy, organic, and vegetarian meals which can help to alleviate pressures on natural ecosystems and biodiversity from conventional agriculture. However, concerns about funding requirements for pre-earnings companies in an environment of rising interest rates, as well as declining growth rates, led to underperformance of the stock. The PMs took the decision to significantly reduce the exposure throughout the year but ultimately the stock was sold fully in November 2022 after breaching internal market capitalisation thresholds.

- **Beyond Meat** – Was held in Restore, Planet Friendly Diets. First mover benefiting from growth in demand for alternative protein which can help to alleviate some of the pressures on land use from livestock farming, however, concerns about funding requirements for pre-earnings companies in an environment of rising interest rates, as well as challenges ramping up capacity and concerns about end market growth and competitive pressures, led to underperformance of the stock. The PMs took the decision to significantly reduce the exposure throughout the year but ultimately the stock was exited fully.

- **Hokuto** – Was held in Restore, Sustainable Food Production. The position in the Japanese mushroom grower was sold following weakening operational dynamics and concerns around the company's progress on sustainable disclosure in light of its elevated carbon intensity.

- **Pennon Group** – Was held in Protect, Planet Compatible Utilities. The PMs lost confidence in Pennon's biodiversity additionality and financial performance in light of a degrading earning profile caused by intensifying regulation for UK water utilities.

  The cash raised was reinvested in two companies, good displaying strong quality but with different growth stories:

- **SES Imagotag** – French retail technology company, global leader in smart digital labels and related IoT solutions. The advanced instore supermarket signage, monitoring and optimisation these enable for retailers makes it a play on food waste reduction (which is quantified at 30% of all food produced globally) and energy efficiency while getting exposure to the IT sector. In an environment of inflation and rising labour costs, digitalisation of stores can also be an effective way of reducing labour intensity. The company has an IMAP of 14 and belongs to the Enablers of Change vertical, in Restore.

- **Veolia** – Leading utility company involved in water treatment, waste treatment and energy management globally. The shares have fallen heavily in 2022 despite the company's business resilience. In part this is due to the ongoing integration of their recent acquisition of Suez. As the circular economy becomes more and more mainstream, Veolia's industry leadership here looks very promising. Veolia has an IMAP of 12 and belongs to the Planet Compatible Utilities, in Protect.

- Other notable changes include reinforced positions into sustainable agriculture enablers **Deere** and **Agco** (Restore, Sustainable Food Production) which benefit from strong end-market momentum and supportive cycle dynamics, as well as Waste Connections (Planet Compatible Utilities) for its defensive profile and strong pricing power even in an inflationary environment. On the other hand, positions in water companies Evoqua and Badger Meter were actively managed in light of rising valuation multiples.

  From a top-down perspective, this reduced the exposure to the Industrials and Materials sectors in favour of higher Consumer Staples and Utilities weightings. Thematically, this translates to a slight reduction of the Protect theme in favour of Restore.

ESG Monitoring

➢ Human rights and Social

UN GC & Human rights compliance disclosure: Fund 91.5% / Index: 99.9%
Labour compliance disclosure: Fund 91.5% / Index: 99.9%

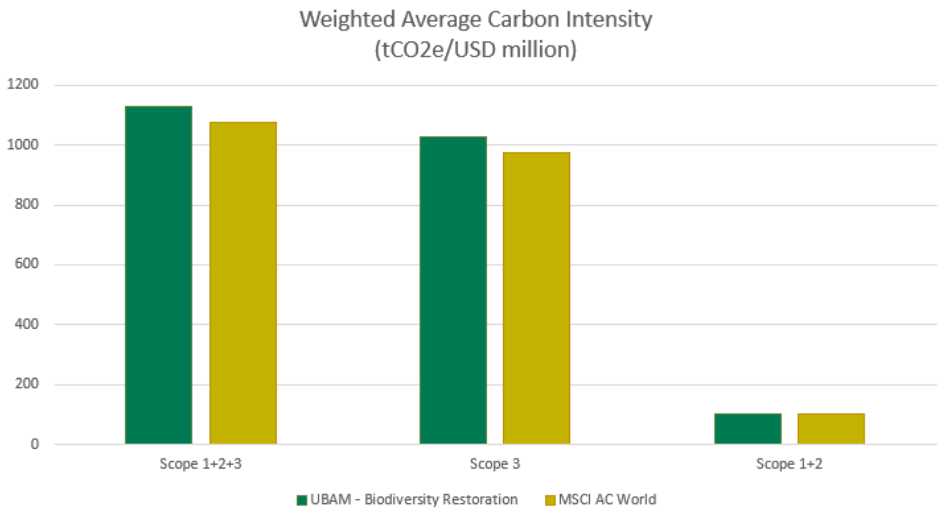
Human Rights

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - Biodiversity Restoration	43	0	0	43	0	0
MSCI AC World	2752	106	23	2752	107	22
UBAM - Biodiversity Restoration	100%	0%	0%	100%	0%	0%
MSCI AC World	96%	4%	1%	96%	4%	1%

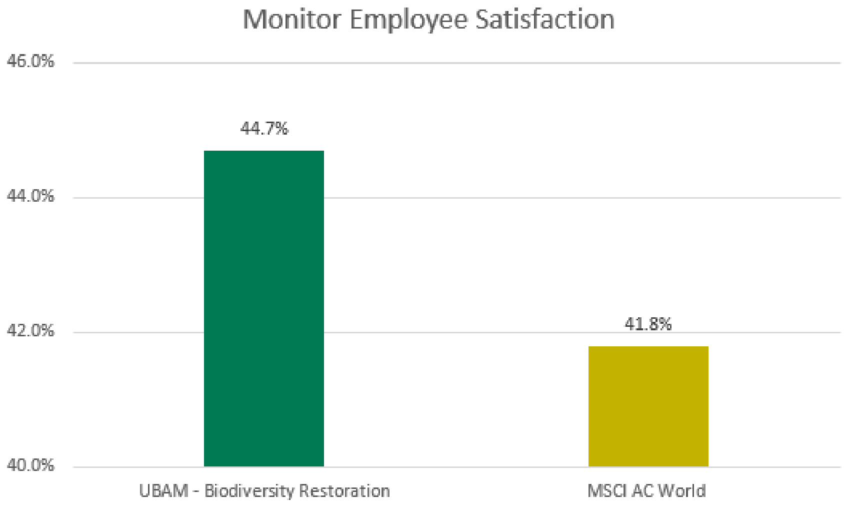
Social

	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - Biodiversity Restoration	43	0	0	43	0	0
MSCI AC World	2825	40	16	2798	66	17
UBAM - Biodiversity Restoration	100%	0%	0%	100%	0%	0%
MSCI AC World	98%	1%	1%	97%	2%	1%

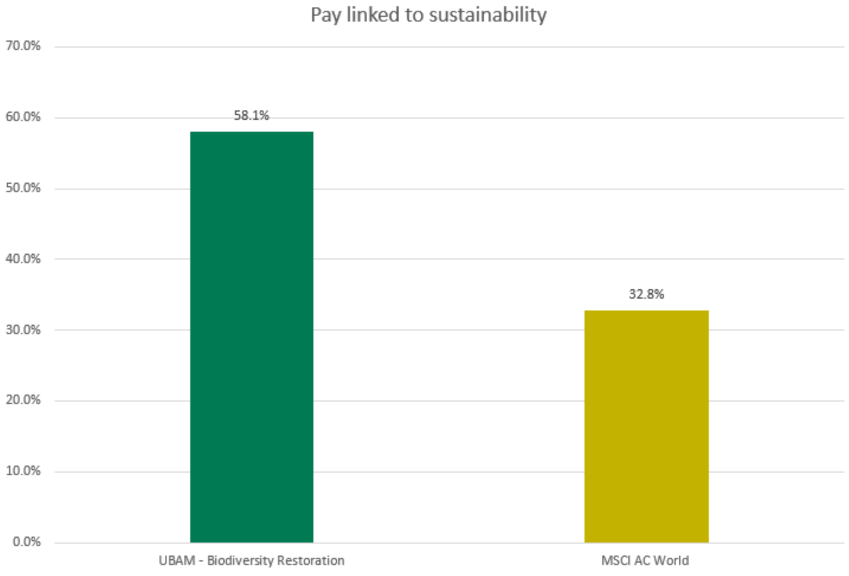
➢ Environment (Disclosure: Fund 100% / Index: 99%)



- **Social** (Disclosure: Fund 89.4% / Index:99.9%)



- **Governance** (Disclosure: Fund 91.5% / Index: 100%)



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

Outlook

- Over recent months the market outlook narrative has evolved slowly but surely. This time last year, there was a degree of panic as inflation rates climbed and central bankers rushed to catch up. At the start of 2023, there are arguably fewer unknowns. Recessions in Europe and the US are expected to be mild, with a relatively unpronounced down cycle for unemployment. The Russian invasion of Ukraine cannot itself be repeated and a similar step by China towards Taiwan remains a low probability. Inflation has topped out. Confidence in the level of terminal rates (if not the date of arrival) is higher. Finally, a lot of the frothiest areas in markets have been significantly rebased. The dollar appreciation trade appears to have run out of steam. This is not to say any of these trends are fully over, but simply that their ability to surprise or to put it another way, their rate of change is diminished vs where the world was a year ago.

- Both the Chinese economic recovery and the US economic resilience make these regions more attractive than Europe. Equity markets have begun 2023 in cheerful mood, but in the past, this has been often explained by inventory rebuild by investment banks rather than fundamental investing trends.

- There are still many hurdles to overcome despite a better overall outlook than 12 months ago. The managers remain in a cautious mood for the time being whilst happy to build positions in stocks where the growth story remains intact.

- Latest estimates from the **International Labour Organisation** showed that c. 50 million people were living in modern slavery in 2021, showing a significant increase over the last 5 years with most cases (86%) found in the private sector. Notwithstanding, According to the latest **UNEP Emissions Gap Report,** national policies currently in place put us on track for 2.8°C of warming by the end of the century, while the implementation of the current pledges will only reduce this to a 2.4-2.6°C temperature rise by the end of the century, for conditional and unconditional pledges respectively. On the positive side, according to the latest Renewables 2022 report by the **IEA**, renewable energy overall will become the largest source of global electricity generation by early 2025, with the world adding twice as much capacity from 2022 to 2027 than the previous 5 years.

- The fourth quarter rounded of this tumultuous year with gains but as highlighted above, most of the year has been a headwind for our positive impact strategies, with our strategy's natural biases being on the wrong side of many of these market moves. We are confident that despite the current crosswinds and challenges, the need to invest in companies that provide solutions to sustainability challenges in addition to representing compelling investment opportunities, has never been greater.

Sources: UBP. ILA. UNEP. IEA

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.
- 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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