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

- Stock markets recorded broad gains over the first quarter of 2023, with the MSCI ACWI* climbing 7.31% over the period, but not without considerable volatility along the way as January started off very strong on the back of China re-opening optimism, while February saw increasing concern about further rate hikes as a result of very strong economic activity and higher than expected inflation figures. However, a sudden bank run at a regional US bank at the beginning of March quickly spread apprehension in the financial sector globally, completely shifting the market outlook for interest rates in the process and sending the markets into panic for two weeks. Fortunately, coordinated efforts by regulators and banks helped alleviate fears of a domino effect and prompted a rebound that extended through to the end of the quarter.

- The Fed's governors still decided to increase the Fed funds rate by a further 25 basis points in March, taking the benchmark fed funds rate to a target range between 4.75%-5%, although they also suggested that the cycle of rate hikes is coming to an end.

- Sectors that are negatively exposed to interest rate sensitivities and that sit firmly in the growth investing bucket such as information technology, communication services and consumer discretionary outperformed significantly in the first quarter, with the MSCI World Growth index* up 15.10% over the period. Whereas inversely, defensive sectors such as energy, health care, utilities and financials clearly underperformed and the MSCI World Value index* closed the quarter up 0.92%. In terms of size, small caps outperformed their large caps counterparts for most of the quarter on better optimism but significantly underperformed in the face of panic.

- In terms of region, Europe had the best performance with the MSCI Europe* returning close to 8.61% over the period, while the S&P 500* as a US proxy was up 7.36% and the MSCI EM* was up only 3.96%. US dollar weakness helped Europe and emerging markets alike gain some ground at the beginning of the quarter, but Europe solidified its lead when geopolitical tensions between the US and China resulted in a pullback in the Chinese tech rally.

- In terms of sustainability regulation developments, the European Commission released a communication that outlines the actions that the Commission intends to take to stimulate investment in the "net-zero industry" within the EU. The Communication is a response to recent increases in state support outside the EU, most notably the US' Inflation Reduction Act (IRA). Some may argue the IRA framework is wider and easier to access and navigate, but the implementation of this plan will certainly make the EU an attractive market for investors in the energy transition.

** 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

- During the first quarter of 2023, Europe experienced stronger-than-expected economic growth despite challenges in the global geopolitical and financial landscape. The rebound in the composite purchasing managers' index (PMI) business survey since the beginning of the year, along with lower energy prices and the reopening of China contributed to improved business sentiment. This resulted in strong returns for equities over Q1, as the MSCI Europe index (net total return) returned +8.61% during the quarter while the UBAM Positive Impact Equity (PIE) portfolio returned +3.31% (net of fees, IC EUR class).

- The improved economic indicators, particularly in Europe, lead to a reassessment of prospects and a positive outlook for growth. This, combined with the belief that rates would soon peak, led to investors favouring long duration growth stocks and crypto currencies for the first couple months of the year. Then, there was a market leadership switch in March with large caps and technology stocks showing strong performance while sectors like Financials, Energy and Healthcare retreated.

- This resulted in a reversal of style performance versus 2022: MSCI Europe Growth (net return EUR) returned +11.68% for the first quarter, versus +5.97% for MSCI Europe Value (net return EUR). Despite a balanced positioning between defensive sectors and quality growth companies, the fund’s performance once again reflects the shortfall caused by pockets of the market which cannot be owned in Positive Impact strategies. Noticeably, the Information Technology sector led the market and returned +20.63% in Q1, but this remains an area with very few genuine impact stocks. Equally, the Consumer Discretionary sector increased by +19.54%. On the flip side, sectors like Materials and Utilities which are more represented in the portfolio were up single digit percentage points.

- The 5 biggest relative contributors for the first quarter of 2023 were Infineon (33.28% absolute return, semiconductors and related solutions for automotive, power controls and secure systems), Schneider Electric (17.41% absolute return, electrical component and software supplier), Gerresheimer (19.56% absolute return, drug delivery devices and solutions), Beijer Ref (33.75% absolute return, refrigeration and HVAC), and Soltec (47.16% absolute return, photovoltaic tracker equipment).

  Although these companies belong to a variety of our impact themes, their strong performance highlights supportive trends in the space of electrification and energy efficiency.

- The 5 biggest relative detractors for the first quarter of 2023 were Diasorin (-25.46% absolute return, molecular diagnostics), UPM Kymmene (-11.39% absolute return, wood products), Safaricom (-30.11% absolute return, financial services accessibility), Pearson (-7.58% absolute return, education provider), and Genmab (-12.09% absolute return, cancer treatment).

  Thematically, this translates to lower returns from societal themes, namely Health & Wellbeing and Inclusive & Fair Economies – reflecting the broader market mood music for these sectors.

Portfolio activity:

After a couple quarters of busy trading in the second half of 2022, the first quarter of 2023 displays less complete buys or sells, but continued position sizing adjustments. The only new addition to the portfolio is Gerresheimer.

- **Gerresheimer** is a German listed midcap producer of medical packaging and delivery systems including ampoules, inhalers and insulin injector pens. The company has a strong global market position in this mission critical supplier to the pharmaceutical industry. Historically, the heavy capital cycle surrounding new glass furnaces has depressed returns, however, under new management, the business is now enjoying better performance focused on more specialised applications and the valuation multiple has room to expand further. Gerresheimer has an IMAP of 13.

  The position was funded by reducing positions in two other healthcare names to manage the fund's heavy allocation to the sector. Both Astrazeneca and Thermofisher have been strong contributors to strategy performance over the long term and in the case of Astrazeneca, remains the fund's largest position. Equally, our holdings in EDP and Veolia were reduced to fund the new holding in Gerresheimer. One aspect we keep in mind is the carbon intensity at the portfolio level, and with a commitment to provide investors with a lower emissions intensity than the reference benchmark, we took the decision to reduce other carbon heavy areas of the portfolio to fund the purchase.

In light of its volatile news flow, the banking sector deserves a separate comment. Price action in the developed market banking sector moved so fast (up and down) that the managers concluded the wisest course of action was to remain invested but resist the temptation to increase weightings to financials, whilst continuously sense-checking holdings in this area. Direct bank positions, NatWest and Nordea are national/regional champions and well-equipped to withstand this kind of adverse environment.

Other notable increases in positions include:

- **Infineon'**s operating momentum remains strong and the company continues to upgrade 2023 guidance. In its latest preannouncement, the company stated that it would meaningfully exceed the previous annual mid-point for revenues of EUR15.5bn; this has led some sell side analysts to increase their EPS expectations for each of the next 3 years by between 4% and 20%, whilst the near-term valuation multiple remains at a discount to the 5-year average.

- **Schneider**'s position was increased. The company continues to perform well, buoyed by customer demand for energy efficiency. This structural trend encompasses both software and hardware solutions provided by the French industrial giant and with the exception of China where the post Covid demand rebound is at best tepid, Schneider reported robust order prospects during its Q1 pre-close call at the beginning of April.

- **Vistry** is a UK housebuilder with a particular focus on social housing, where development is at least partly developed for and allocated to local housing associations. In 2022 the company acquired our original holding in this area, Countryside Partnerships and the enlarged Vistry now has a leading position in the sector. After a tough derating in 2022 common with all housebuilders, we believe the share price is attractively valued and we are now cautiously increasing our exposure to this area of the portfolio.

- **Salmar**'s position was cautiously increased as the news flow relating to the surprise industry tax levy, announced in 2022, turned slightly more benign. Whatever the final level of taxation that is imposed, the Norwegian industry

is likely to adapt thereby generating a more attractive level of profitability than the shares currently reflect.

- **Trane**, the US listed cooling and ventilation leader continues to report a record order book and prospects for 2023 are well supported with the US Green Agenda.

These position increases were funded by sales in the following:

- **UPM Kymmene**, the Finnish pulp and paper producer enjoyed a very resilient 2022 supported by strong end market demand and pricing. After a strong run, some profit taking is well-timed.

- The positions in **Diasorin, Bandhan** and **Safaricom** were reduced as part of the managers' process of reducing positions in companies that are technically struggling. The ongoing share price trajectories continue to underperform the broader market and for risk mitigation objectives, smaller position sizes are appropriate. In the case of Bandhan and Safaricom, the decision to reduce was taken with a preference for impact ideas within the European market. In the case of Diasorin, the entire diagnostics industry continues to be impacted by the post covid volume uncertainty and consensus organic growth rates remain under pressure.

- **Kerry Group**'s position was reduced to reflect the Irish listed ingredients business recent negative trend in earnings expectations. These financial pressures are in part related to ongoing investments and a hangover of the inventory build the company pursued during 2022 as part of a strategy to cope with expected input inflation. Returns for the business have continued to slowly erode over the years, and the managers are adopting a more cautious positioning in the company awaiting evidence of a turn in profitability.

Q1 2023

ESG Monitoring

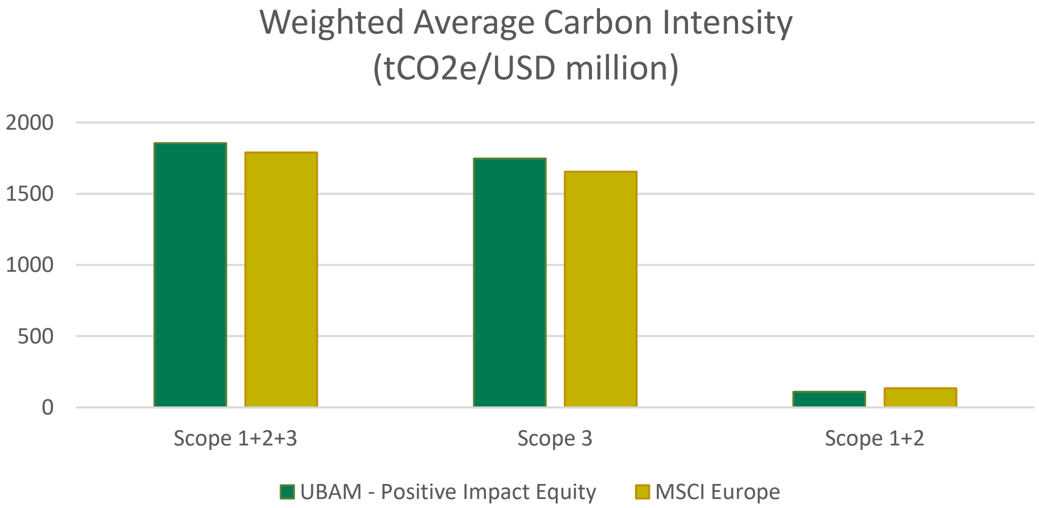
(MSCI methodology provided in the appendix)

➢ **Human rights and Social** (Disclosure: Fund 97.7% / Index:100%)

	UN Global Compact			Human Rights Compliance		
	Pass	Wathlist	Fail	Pass	Watchlist	Fail
UBAM - PIE	43	0	0	43	0	0
MSCI Europe	389	31	4	396	24	4
UBAM - PIE	100%	0%	0%	100%	0%	0%
MSCI Europe	92%	7%	1%	93%	6%	1%

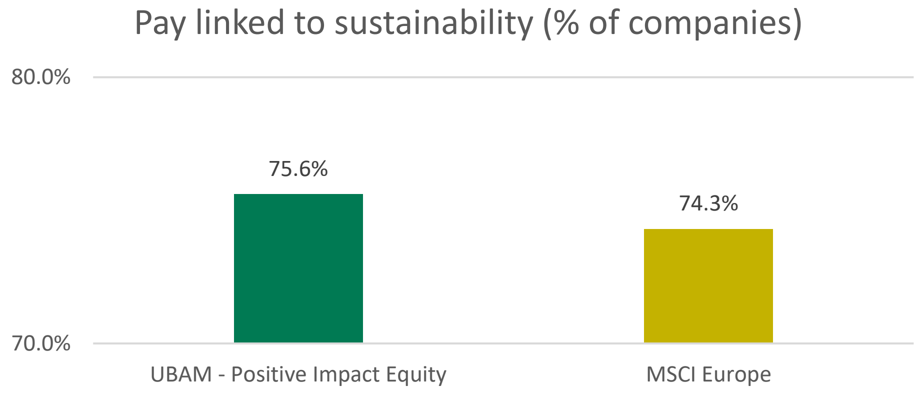
	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIE	43	0	0	43	0	0
MSCI Europe	412	9	3	407	14	3
UBAM - PIE	100%	0%	0%	100%	0%	0%
MSCI Europe	97%	2%	1%	96%	3%	1%

➢ **Environment**
(Coverage Scope 1+2: Fund 87% / Index: 97%)
(Coverage Scope 3: Fund 78% / Index: 89%)

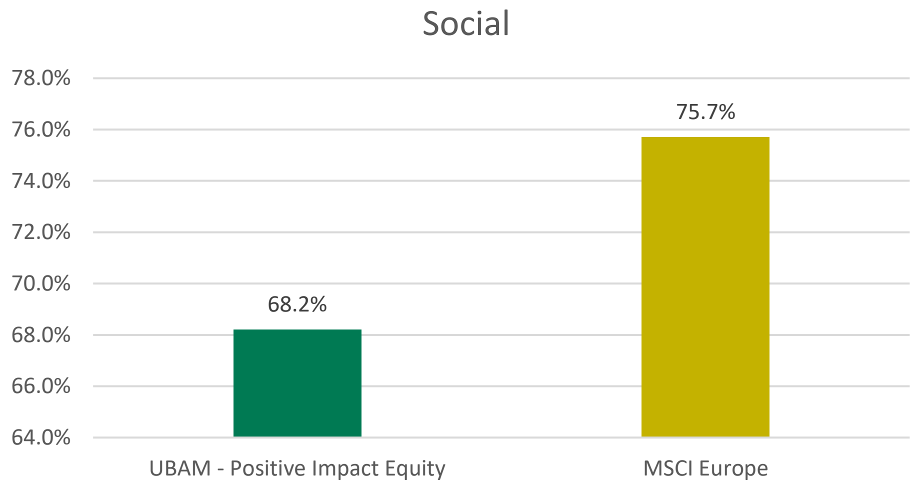


Carbon Intensity metric: UBAM - Positive Impact Equity aims to beat the benchmark (MSCI Europe) for this metric

- **Governance** (Disclosure: Fund 97.7% / Index:100%)



- **Labour**
  Employee Satisfaction (Disclosure: Fund 97.7% / Index: 100%)



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

Outlook

- Equity markets have begun 2023 in cheerful mood, but March 2023 was a month of divergent returns depending on theme and geography. Investors demonstrated a strong preference for large caps and technology, and leadership proved to be very narrow, for example 88% of the S&P's advance in March was derived from 10 tech names. The switch of market leadership from Value to Growth follows a well-trodden playbook where one period's share price leaders become the next market phase laggards.

- So, what kind of fundamental observations should investors focus on after such a noisy quarter in equity markets? In a recent market outlook, we highlighted that when compared to the first months of 2022, the beginning of 2023 arrived with a much lighter burden of new macro factors to digest. Then came the 2023 banking crisis. Whilst each troubled bank name can be idiosyncratically explained, investors should not pretend that the loss of confidence that accompanied the mini crisis will have no lasting scars. For example, the US money supply is estimated to have contracted by over 5% on an annualised basis in Q1. Whilst this leaves less for central banks to do in terms of rate setting, the outcome of a sharp tightening in money supply is likely to be felt in the real-world economy.

- So far, investor behaviour in response to lower bond yields, driven by the turbulence in developed market banks, has been to buy growth, yet this is in the face of a quarter when profit guidance overall was as poor as at any time since Q1 2015. The market reaction is perhaps too optimistic, favouring more expensive, growth areas of the market and shunning lower multiple sectors. The team remains positioned in both quality-growth and value names, and we remain focused on companies that are capable of internally funding their financing needs via stable profits.

- Sustainability commitments are encouragingly keeping strong form so far this year, with **BNEF** reporting that some 780 companies have set or committed to set a science-based target (SBT) through March, pledging to reduce their emissions in line with the Paris Agreement. This is the fastest start of the year in SBT commitments ever – some 32% higher than commitments at the same time in 2022 (592), showcasing the popularity of SBTs among corporations and more importantly evidencing the increased commitments of companies to move in the right direction and tackle climate change meaningfully.

Sources: UBP, BNEF

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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