

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

- The fourth quarter of 2023 delivered a “Santa rally” for investors, fueled by rate cut expectations following the Fed’s pivot towards a more dovish stance. Equity markets rallied across the board and the MSCI ACWI* returned 11.0% in USD terms in Q4 to double its total return for the year to 22.2%.
- Overall, 2023, was a year that defied expectations, with inflation roaring and the Fed enacting the fastest rate hike cycle in 40 years. Nonetheless, after a rise in yields from May to October 2023, bonds rallied until the end of the year when US 10-year bond yield declined to 3.88%, exactly where it started the year, after touching 5% in October. Over the last months of the year, the Fed changed its tone and economic indicators remained fairly encouraging, boosting hopes of a soft landing in 2024 for the US economy. On the back of this, equities accelerated in the last two months of the year.
- For the quarter in terms of style, the end of ‘higher for longer’ rates fears boosted growth stocks, with the MSCI ACWI Growth Index* returning 12.7% over the period. The MSCI ACWI Value Index* also delivered a very respectable 9.2% but naturally lagged behind the growing excitement of the market. Similarly, Small cap stocks outperformed Large cap stock for the first time this year, helping broaden the rally that had been dominated by “the magnificent seven”. In terms of sectors, Technology, Real Estate, Financials and Healthcare outperformed, while Energy, Staples and Communication Services lagged.
- Across regions, Developed markets generally outperformed Emerging Markets. The US, using the S&P 500 Index* as a proxy closed 11.6% up, returning 25.7% for the year, while the MSCI Europe Index* closed the quarter up 6.4%, but was up 15.8% in 2023. Finally, the MSCI EM Index* was up 7.9% and up 9.8% for the year. Latin America was particularly strong for the quarter and the year but China remained a negative outlier, as it continued to ease policy in hopes of reaccelerating from its growth slump. Finally, the Topix Index* in Japan rose 2% in the fourth quarter, concluding its best annual result in a decade with its 27.8% return.
- This year’s COP28 in Dubai drew over 100’000 attendees, almost double the size of COP21 in Paris. Encouragingly, the narrative on the link between nature and climate has become stronger since COP27, and this was cemented by a dedicated nature day for the first time at COP28. A joint statement on “climate, nature and planet” (signed by 15 nations including the UK and the US) called for countries to meet the Paris Agreement targets along with the Global Biodiversity Framework ambitions. This is great progress in terms of how capital will be allocated to solutions. Moreover, while the record-setting global public-private sector participation offered a signal of hope, the backdrop of oil refineries served a stark reminder of COP’s dual nature as a symbol of climate progress and delay. There was no convincing increase in the level of urgency or ambition at collective level, but we can hope that keeping the 1.5° C target will lead to stricter targets for the next round of climate goals (i.e. the so-called “nationally determined contributions”).

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

Sources: UBP, Bloomberg
Finance LP.



Performance Review

- During the final quarter of the year UBAM Positive Impact Equity returned 4.98%, compared with the MSCI Europe Index return of 6.43%. Relative performance in the final two months of the year improved (UBAM Positive Impact Equity +12.5% vs the MSCI Europe Index +10.4%) as the fund benefited from the growing market perception that inflation had peaked and that central bank interest rate cuts were on the horizon.
- Stock selection amongst our holdings of industrials and healthcare companies were notable areas of weakness during the fourth quarter. Negative contributions to relative performance came from pharmaceutical companies Sanofi and Genmab, as well as auto parts company Valeo, and transportation company Mobico. Sanofi suffered on concerns about management's decision to significantly raise the level of R&D to support the innovation pipeline. Genmab underperformed after sales in the third quarter slightly missed market expectations and on continued uncertainty about the level of cost growth into 2024. Valeo underperformed on concerns about the company's ability to meet full year guidance against a backdrop of industry strikes in North America and softening EV demand. Mobico suffered after management issued a profit warning associated with the US school bus division and announced a strategic review.
- The main positive contributors to relative performance came from private markets investment manager Partners Group, electrical power and automation company Schneider Electric, environmental consultant Arcadis, building materials company Sika, and HVAC company Trane Tech. Partners Group benefited from improved investor sentiment on the outlook for private markets during the quarter as expectations of falling interest rates grew. Schneider Electric and Trane Technology benefited from the continued delivery of strong results supported by solid demand for energy efficiency solutions from customers. Arcadis performed strongly following an update to its mid-term strategic targets and on the back of solid results and order book trends. Sika also benefited from an improving picture for its European operations and synergy potential from its acquisition of MBCC.

Portfolio activity:

- Following an active period for transactions in the third quarter of 2023, we added one new holding to the fund in the final quarter of the year. Trainline (Sustainable Communities, IMAP score 12) is Europe's leading independent rail and coach ticketing platform. It stands to benefit significantly from an increase in the penetration of e-tickets as well as from its expansion into liberalising European rail markets. Rail travel generates significantly less carbon emissions than flying or driving, and the European Commission's 'Sustainable and Smart Mobility Strategy' explicitly targets a doubling of high-speed rail traffic across Europe by 2030, as well as making connected and automated multimodal mobility a reality.
- Elsewhere on the portfolio, we added to our existing positions in a number of companies including pharmaceutical company Roche, food retailer Ahold Delhaize, electric grid operator Terna, and electricity metering company Landis & Gyr. Roche is a good quality pharmaceutical company with strong positions in oncology, neuroscience, immunology and diagnostics, and the valuation is looking particularly compelling compared to peers and the company's own history. Ahold Delhaize suffered in the third quarter on concerns about the impact lower inflation in the food value chain could have on its profit growth, but the company has a solid business model and is trading at a significant discount to its historical valuation range. Terna stands to benefit from ongoing investment in its regulated asset base to facilitate the expansion of renewable energy capacity in Italy. Finally, we decided to increase our holding of Landis & Gyr after they reported solid third quarter earnings and confirmed their guidance for the full year.
- We made full exits of two holdings on the fund: offshore wind operator Orsted, and transport operator Mobico. We had already significantly reduced our holdings of Orsted during the course of 2023 on concerns about continued supply chain challenges and inflationary pressures, but early in the fourth quarter we decided to sell our remaining holding on continued concerns about further writedowns to its US development portfolio and associated financial liabilities. Mobico disappointed the market with a downgrade to its expectations for its school bus operations and the announcement of a strategic review for the operation. Given the heightened operational uncertainty we decided to exit our holding.
- Elsewhere 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. These included electrical power and automation company Schneider Electric, building materials company Sika, food production equipment company GEA, ventilation company Volution, environmental consultant Arcadis, and salmon farming company Salmar. We also reduced our exposure to pharmaceutical company Sanofi given the near-term impact on earnings from an increased level of R&D spending announced in November. Finally, we reduced our exposure to auto parts company Valeo which has continued to underperform despite its attractive valuation and long term growth drivers.



ESG Monitoring

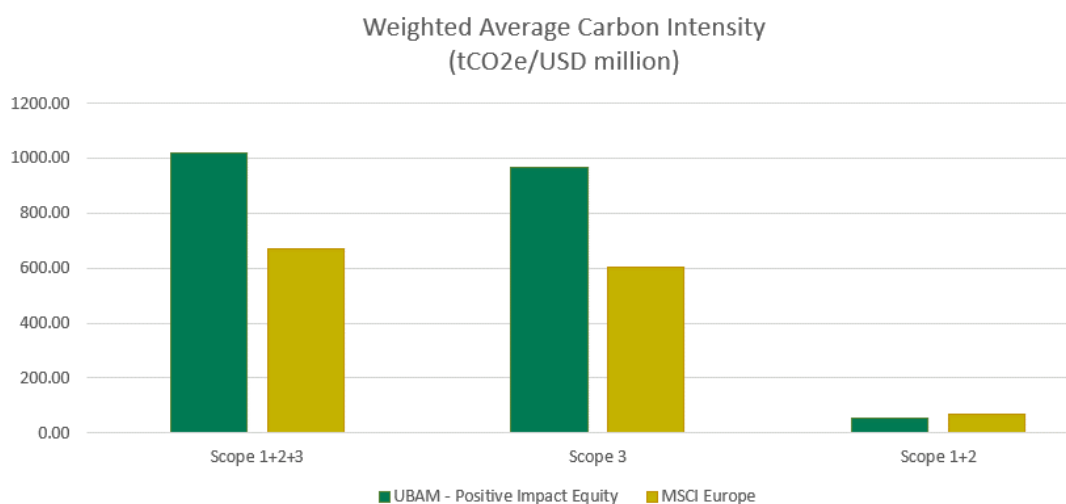
(MSCI methodology provided in the appendix)

➤ 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	395	29	1	398	25	2
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	416	9	0	410	14	1
UBAM - PIE	100%	0%	0%	100%	0%	0%
MSCI Europe	98%	2%	0%	96%	3%	0%

➤ Environment (Public Disclosure: Fund 90.0% / Index: 97.0%, Coverage Including estimates: Fund 100% / Index 100%)

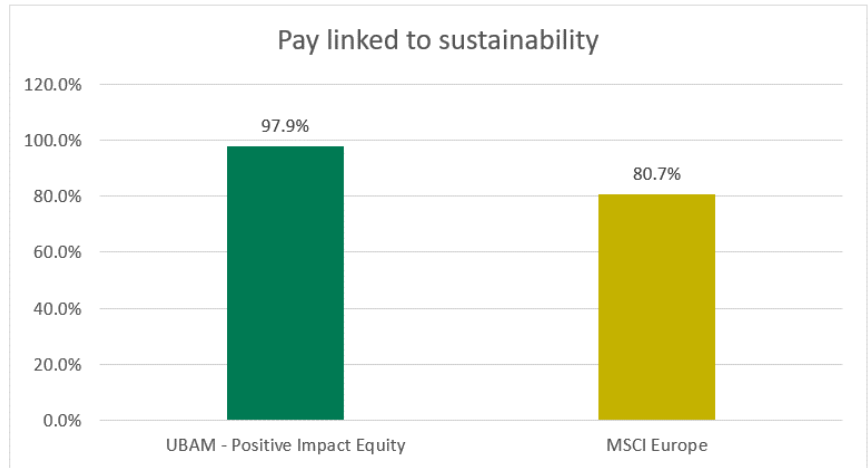


Carbon Intensity metric: UBAM - Positive Impact Equity aims to beat the benchmark (MSCI Europe) for this metric

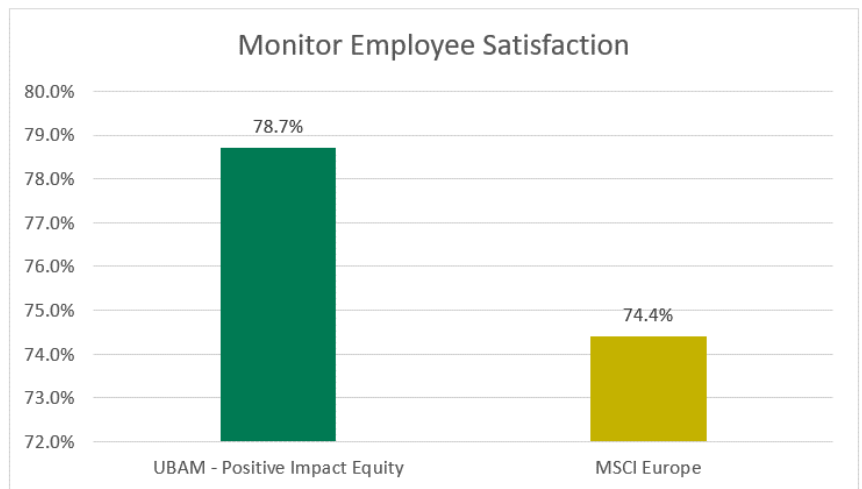
The fund beats its benchmark on a scope 1&2 basis. If we include scope 3 emissions, the Weighted Average Carbon Intensity of the benchmark is lower than for the fund. This situation suggests a significant change from previous reporting, especially on the benchmark side, requiring further analysis from 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.



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



➤ **Labour**
Employee Satisfaction (Disclosure: Fund 95.9% / Index: 100%)



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

Outlook

- Market sentiment was even more mercurial than normal over 2023, bouncing from recession worries at the start of the year, to resilient growth over the summer, to higher for longer in the autumn, and ending the year focused on future rate cuts. Arguably, the strong run into year-end may have dragged some of 2024's expected equity return into 2023 as market consensus moved to price in a soft landing. The MSCI ACWI generated double digit returns despite negative earnings growth for most constituents as investors navigated an altering backdrop. Consequently, 2023 was largely driven by valuation expansion, while 2024 is supposedly going to be driven by better corporate earnings across the board. Investors' focus is now shifting from inflation concerns and towards softening economic growth. For 2024, consensus predicts 9-11% EPS growth - which is the traditional starting point. Nevertheless, risks are always present as financial conditions remain constrictive – higher interest rates have made borrowing more expensive, which has reduced spending and investment.
- There are a few additional features central to the investment thesis for the coming year. First, 2024 will be the biggest election year in history, with more than half the people on the planet living in countries that will hold nationwide elections in 2024. The US presidential election in November is the most significant event, however, global trade and diplomacy will be impacted much sooner given two major conflicts ongoing and the undercurrent of geo-political tensions. Next there is the question of nominal and real growth. Inflation rates have been coming down faster than consensus expected, and this has now created the possibility of meaningful rate cuts towards the third quarter of the year, with some forecasting this coming earlier. Europe is expected to lag the US in its rate pivot, however, there is a chance that the more sclerotic growth in Europe, impacted badly by Germany's export reliance particularly to China, means the ECB decides to move faster, depending on the inflation outturn. A strong US dollar peaking towards the beginning of the year, would be positive for emerging markets and small caps among others.
- During Q4, bond yields fell dramatically as investors played the pivot theme, however, since the start of 2024 some of that yield compression has been given back. This holds true with recent market volatility reacting to short term changes in news flow, in this instance Fed minutes suggesting that market had got too premature in its US rate cut expectations. Further bond market volatility is likely to influence equity markets rather than the other way around in 2024.
- On the sustainability front, among the standout positive developments in 2023 was a very high renewables growth rate (50% more renewable capacity in 2023 than in 2022*), numerous climate commitments at COP28, and multiple signs of technology advancement. Standout challenges in 2023 included geopolitical conflicts, high weather volatility that put strains on power grids (driving multiple countries to increase their reliance on fossil fuels temporarily) higher interest rates driving up decarbonization project costs and multiple missteps and challenges relating to companies' business models. On that last challenge, 2023 was a reminder that it is not enough to have a business model focused on enabling the sustainability transition; you must also be a high-quality business. Stocks that face risks of commoditisation, are cash flow constrained, and/or are exposed to significant execution risks will continue to struggle and a disciplined allocation remains critical.

Sources: UBP, COP28, *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.
- 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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