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

- 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, in USD*

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 the year, UBAM Biodiversity Restoration returned +5.07% compared with the MSCI ACWI return of 8.14%. Relative performance improved during the course of the quarter, with UBAM Biodiversity Restoration registering a gain of 4.08% during the month of March against the MSCI ACWI return of 3.09%.

- In the first two months of this year, relative performance suffered against a market backdrop of continued strong gains from large cap technology and communication services sectors, as well as strong outperformance of larger companies in general. Subsequently, the fund benefited from improved participation of a wider group of sectors as well as the improving relative performance of the mid cap segment of the market. For the quarter as a whole, relative performance was negatively impacted by the fund's structural underweight exposure to large cap technology, communication services and energy sectors. Our overweight exposure to industrials and materials sectors proved positive towards the end of the quarter as market breadth improved.

- Top contributors to relative returns during the quarter included specialist food retailer Sprouts Farmers Markets Sprouts, HVAC and refrigeration company Trane Technologies, building materials company Advanced Drainage Systems, and natural cosmetics company L'Occitane. Sprouts Farmers Market reported strong fourth quarter 2023 results with comparative sales growth and operating margins ahead of market expectations, extending the track record of meeting or beating expectations for around eight quarters (broadly in line with the period we have held the stock). Similarly, company guidance for 2024 exceeded market expectations. Trane Technologies reported impressive fourth quarter earnings, with strong organic sales growth of 6%, a 15.6% operating margin and strong cash conversion. Guidance for 2024 was also taken positively, including organic growth of 6-7% with only a minor contribution from pricing, and supported by a healthy $6.9bn backlog. Advanced Drainage solutions reported solid quarterly earnings with improved volumes and strong margins. The company also raised fiscal year 2024 guidance for both revenues and margins. L'Occitane reported quarterly sales that were broadly in line with expectations, including very strong contribution from the Sol de Janeiro brand. The shares appreciated further on news that Blackstone was considering a bid for the company.

- Top detractors to relative returns during the quarter included metal recycling company SIMS, real estate company Gecina, industrial waste recycling company Daiseki, and US water utility American Water Works. Not owning AI chip manufacturer Nvidia and social media platform company Meta also detracted from relative returns. SIMS reported very disappointing first half results with particularly weak margins in the more export-oriented ANZ Metals and UK Metals divisions. The company is taking action to improve the mix of unprocessed input scrap and domestic sales within ANZ to stabilise the level of profitability, in conjunction with a cost savings programme. Gecina fell as a result of greater than expected portfolio revaluations in the fourth quarter. The company retains well placed with a strong portfolio of assets and a strong balance sheet. Daiseki reported positive full year 2023 earnings with operating profits rising 16.5%, but the company's outlook for 2024 was disappointing, resulting in mid single digit earnings downgrades. Finally, American Water Works lagged the broader market rally during the first quarter, despite reporting full year 2023 results in line with expectations and reaffirming the long guidance.

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Portfolio activity:

- During the quarter we introduced three new holdings into the portfolio: industrial laundry services company Elis, reusable pallets and logistics services business Brambles, and aluminium packaging company Ball Corp.
  - Elis 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, and should make further progress in expanding its operating margins.
  - Brambles is the global market leader in the reusable pallets and logistics business, providing efficient and sustainable solutions to customers across a range of distribution sectors, in particular food and beverage. The Brambles reusable pallets pooling model enables significant reductions in the use of primary raw materials and a sustainable alternative to single use disposable packaging. Reusable pallets should continue to gain market share from single use ‘white wood’ pallets, and Brambles is well positioned to capture this growth trend.
  - Ball Corp is one of the leading specialist aluminium packaging producers in the world focused primarily on aluminium cans for the beverages industry. Aluminium as a material can be recycled indefinitely and is taking share from plastic packaging across major beverages markets, hence helping to alleviate the negative impacts of plastic pollution. The company’s announcement that it had sold its aerospace business prompted us to re review the business. Strong customer relationships and geographical spread will enable the company to benefit from the ongoing shift towards aluminium in the beverages industry.
- We made two complete exits from the portfolio early in the first quarter: nano filtration company NX Filtration, and fruit and vegetable grower and distributor Costa Group.
  - NX Filtration had already been reduced to a very small sized holding on the portfolio given its small market capitalisation and the fact that it is at a pre profits stage of its corporate lifecycle. We fully exited the holding after the share price fell below our minimum market capitalisation threshold due to concerns about the company’s funding runway amidst weak order booking trends.
  - Costa Group was bid for by Paine Schwartz Partners, a private equity company focused agribusiness and food chain buyouts, and we decided to exit the position in order to put the capital to work elsewhere in the portfolio.
- Elsewhere in the portfolio, we increased our exposure to a number of companies including international food retailer Ahold, wood products and development company Sumitomo Forestry, ingredients company DSM, and steel dust recycling company Befesa.
- In contrast, we reduced our exposure to number of companies in the portfolio including waste management companies Waste Management and Waste Connections, meal kit producer HelloFresh, food retailer Sprouts Farmers Market, HVAC and refrigeration company Trane Technologies, agricultural equipment company Deere and multi utility Veolia Environment.

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ESG Monitoring

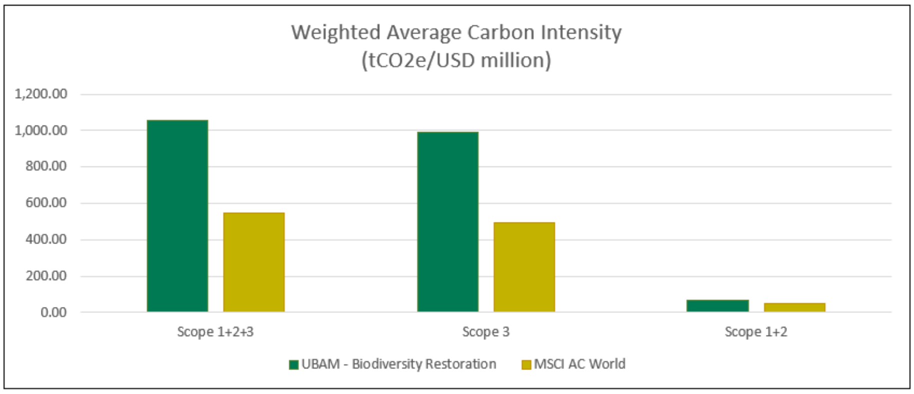
➢ **Human rights and Social**

(Disclosure: Fund 93.9% / Index: 99.9%)
and Social (Disclosure: Fund 95.9% / Index: 99.9%)

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - BRF	46	0	0	46	0	0
MSCI AC World	2696	130	15	2684	143	14
UBAM - BRF	100%	0%	0%	100%	0%	0%
MSCI AC World	95%	5%	1%	94%	5%	0%

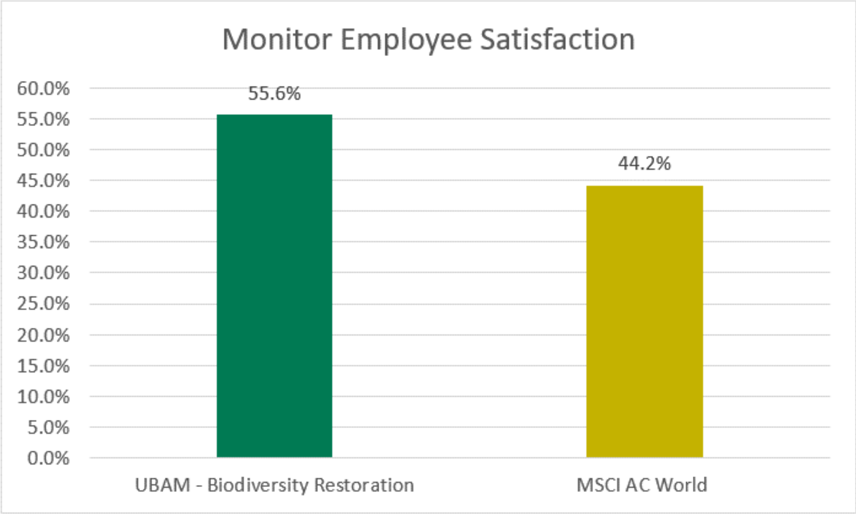
	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - BRF	47	0	0	47	0	0
MSCI AC World	2786	42	12	2750	77	13
UBAM - BRF	100%	0%	0%	100%	0%	0%
MSCI AC World	98%	1%	0%	97%	3%	0%

➢ **Environment**
(Public Disclosure: Fund 85% / Index: 93.5%, Coverage Including estimates: Fund 97.9% / Index 99.1%)

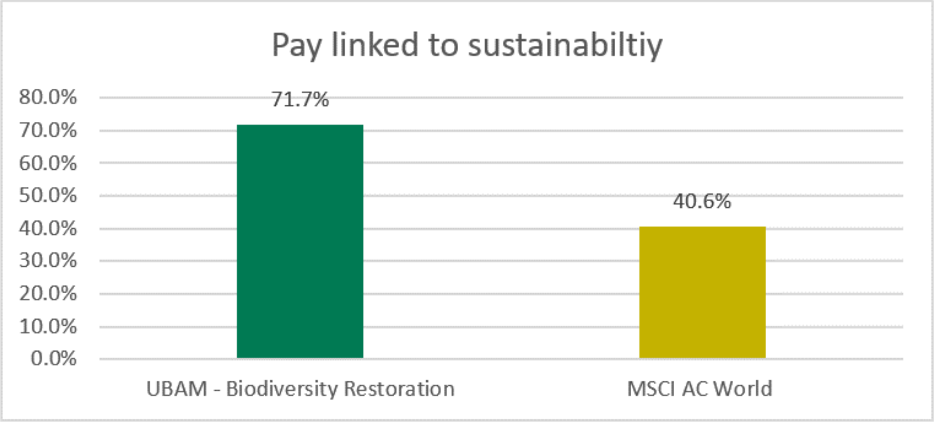


The fund is at the same level as the benchmark on a scope 1&2 basis. If we include scope 3 emissions, the Weighted Average Carbon Intensity of the benchmark is lower than for the fund. This situation suggests a significant change from previous reporting, especially on the benchmark side, requiring further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

➢ **Social** (Disclosure: Fund 91.8% / Index:99.9%)



➢ **Governance** (Disclosure: Fund 93.9% / Index: 99.9%)



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.

- China will continue to suffer from the fallout of the slowdown in its real estate sector. We don't expect a sudden acceleration, but do not expect a collapse either. The consensus expects a 4.5% GDP growth in 2024, and there are still ways in which the authorities can stimulate the economy particularly as inflation is much lower than in other regions. Outside of China, we believe the flows to the rest of Emerging Markets will continue.

- 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.
- 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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