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

- Despite the ongoing war in Ukraine, equity markets recovered from the middle of March. Investors continued to focus on movements in oil prices, which rose by around 30% in the first few days of March. Although they then fell back, Brent crude still ended the month 7% higher.
- In the US, consumer sentiment was dragged down by economic concerns but above all rapidly rising prices, despite a very solid labour market as shown by stronger-than-expected job creation figures for February. Annual inflation rose to 7.9% in February, with service prices accelerating sharply on top of rising energy costs. However, confidence levels remained high in the manufacturing sector, and even rebounded in services. As expected, the Fed raised its key interest rates by 25bp for the first time since 2018 and announced plans to start reducing the amount of assets on its balance sheet in the near future. The Fed's governors are expecting to raise rates another six times this year, confirming that taming inflation is the US central bank's main priority.
- In the eurozone, hostilities in Ukraine caused a sharp drop in consumer sentiment, which had an impact on consumer spending. Business confidence fell only slightly in both manufacturing and services, but the future activity component of the IFO index collapsed. Inflation continued to rise, as it did everywhere else, and is heading over 6%. The ECB adopted a tougher tone than expected, saying it was prepared to end asset purchases at the start of the third quarter.
- In China, tighter restrictions to combat rising Covid-19 case numbers affected PMI indices, which fell back below 50.
- Global equity markets ended the first quarter of the year in the red with -5.36% (MSCI ACWI*). In the US specifically, the S&P 500* index was down by -4.70% during the first quarter with a noticeable outperformance of the Value segment over the Growth one (-9.09% q/q for the Russell 1000 Growth* and -0.89% q/q for the Russell 1000 Value*). In this context the MSCI Europe* delivered -5.32%, outperforming the MSCI Europe Small Cap* with -9.78%. Finally, the Emerging markets delivered -6.98%, again with a high dispersion. Brazil was up +35.92% and on the other side, China was down – 14.19%.
- The IPPC (Intergovernmental Panel on Climate Change) published a report at the end of February: this is the report by the second working group (WG), which focuses on "impacts, adaptation and vulnerability" (WG I, which had a report out last summer, focuses on "the physical science basis of climate change"). "This report recognizes the interdependence of climate, ecosystems and biodiversity, and human societies and integrates knowledge more strongly across the natural, ecological, social and economic sciences than earlier IPCC assessments."

** 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 2022, the UBAM Positive Impact Equity (PIE) strategy returned -14.55% (net of fees, IC EUR class), compared to -5.32% for MSCI Europe*.

  * net total return index

- However, considering the macroeconomic events of this quarter, the performance of the fund should be observed in steps. Firstly, in our previous quarterly report we were highlighting the regime change that was arising within markets at the close of 2021. This clear attempt by the central banks to get ahead of macro-economic trends created a difficult environment for “pro-growth” investors and their companies.

- In response, the managers focused ever more closely on operational momentum. Any equity that is sporting a high near-term multiple will need to deliver strong top line and cashflow growth to defend optically pricey valuations. Equally, this means that the bar for inclusion in the fund was raised – but fortunately the UBAM PIE watchlist of closely monitored stocks offered the managers quite some optionality to broaden the portfolio.

- Then, everything changed as the Russian invasion of Ukraine caused huge volatility around financial markets and left very few areas unaffected. Companies with direct exposure to Russia experienced substantial declines in share price while companies with moderate sales exposure to the region were also hit hard.

- Some names owned in UBAM PIE fell as investors worked out how wide-ranging the impact of the conflict would be, but the portfolio navigated the period better than its reference benchmark. The portfolio had no direct exposure to Russia or Ukraine and indirect exposure to Eastern European countries was estimated c.0.4% of the fund through agricultural equipment names like GEA Group, CNH Industrial and Raisio. Managers also focused on keeping a high-quality balance and made sure to act on key themes like energy independence early.

- Finally, as the quarter came to a close, a number of characteristics became embedded in the short- and medium-term outlooks. Global trade patterns started adapting to a new normal, and it is recognised that geopolitics will play a bigger role in the path of stock markets in the future than in recent history. The team continued to manage the portfolio with a defensive bias, whilst maintaining an exposure to those impact industrial verticals experiencing the strongest support from this uncertain environment.

- The biggest positive contributors were Salmar (sustainable salmon farming), Recticel (insulation materials), Befesa (metal recycler), CNH Industrial (agricultural equipment), and EDP (renewables). Reflective of the above, these companies provide a hedge against higher energy prices (better insulation, renewables) or play into the food supply chain outside of affected areas.

- On the other hand, the negative contributors were Thule (sports and cargo carriers/equipment), Countryside Properties (affordable housing), Orpea (nursing homes), Valeo (electric vehicles components) and Trane (HVAC equipment) – affected by continued supply chain constraints and company specific events detailed below.

Portfolio activity:

Reflective of the disciplined reduction in exposure to elevated P/E ratios and developments of individual investment cases in the context of a quickly evolving macroeconomic environment, the significant changes were made to the portfolio. On the sale side:

- **Ecolab** – our position in the US-listed water and energy player which has been part of the portfolio since launch was sold entirely. The size of the holding had been gradually reduced in line with methodology of prioritising our portfolio holdings with a strong mix of attractive valuations, earnings momentum and impact credentials. We reviewed Ecolab during January and concluded that the current operating trends did not merit the headline valuation at a time when we have a number of promising new alternative ideas.

- **Orpea** – the remaining shares were sold. The position had already been heavily derisked but retained in the portfolio as an attractively valued leader in social care. However, we have judged the increasing severity of the scandal surrounding Orpea's business practices as being long tail, political and beyond the reach of our own additionality as institutional investors. For these reasons we took the uncomfortable but necessary decision to sell the remaining position.

- **Xylem** – the position was sold after a poor Q4 trading update. Given the mid 30x earnings multiple for the company, the managers feel that there is better operating momentum to be found elsewhere at cheaper valuations.

- **Siemens Gamesa** – the European wind turbine manufacturer was reduced on the evidence that 2022 will continue to be tough for the wind power industry with supply chains and pricing difficulties affecting profitability.

- **Countryside Properties** – reported a surprise downgrade to its 2022 profit target and a decision to part company with its CEO. The nature of the announcement was unexpected since the company held an upbeat capital markets day only back in November. In light of this development the position size was reduced substantially.

More specifically in the context of the Ukraine war and consequences on energy markets, positions in energy intensive DS Smith and Befesa were reduced. In both cases energy costs are hedged forward for the short to medium term, however the rolling programme will still have to gradually absorb higher energy prices over time leading to modest downgrades unless output prices can be raised to fully compensate these higher input prices. To a lesser extent we also reduced our position in Biffa on the same rationale.

The funds raised were used to start positions in companies showing strong operating trends and attractive earnings momentum thanks to being more insulated or benefitting from the evolving macro uncertainty:

- **CNHI** – a position was initiated in the Italian agricultural equipment giant. The business has been recently restructured and having split off the Iveco trucks division, the Agnelli-family controlled CNH is now entirely focused on agriculture. In 2021 CNHI bought, Raven Industries, a US based business focused on precision farming, and an asset which we had already identified within our positive impact universe with a promising future.

- **NatWest** – we initiated a position after running a study of the largest 30 European commercial banks, focusing on their commitments, targets and management of lending books. Natwest Group sits within a handful of banks that has committed to a 50% reduction of emissions within their loan books by 2030. Whilst not yet sufficient in terms of breadth of target, we recognised that Natwest is leading the industry. Furthermore, the valuation of the shares is currently attractive and this combination make the bank and interesting addition to the portfolio.

- **GEA Group** – The company makes end to end processing systems mainly used by the food manufacturing and pharmaceutical industries. As an example of GEA's strength, the company was selected to supply a full end to end production system for Novozymes, a global leader in manufacturing of enzymes. The company has been restructured under new management and is beginning to show the results of better strategic direction.

- **EDP** – EDP majority owns and controls EDPR, a global leader in renewable electricity generation. The timing of the purchase is explained by two changes in the market. First, the renewable space, from equipment manufacturers through to renewable electricity generators have underperformed the market since the start of 2021. With the recent developments in Eastern Europe there is a new urgency surrounding energy independence in Europe, given the near 40% reliance on gas from Russia. We believe that renewable electricity assets will rise in value as near-term energy prices continue to soar. Furthermore, with its strong track record in large project delivery, EDP is well-placed to capitalise on stronger installation demand going forward.

We also continued to build position sizes in Infineon (German semiconductors focused on EVs and Power Controllers), Impax (Sustainable Investment Management) and Recticel (Belgian insulation). The three names are all showing strong operating trends and attractive valuations at present and merit larger weightings in the portfolio.

ESG Monitoring

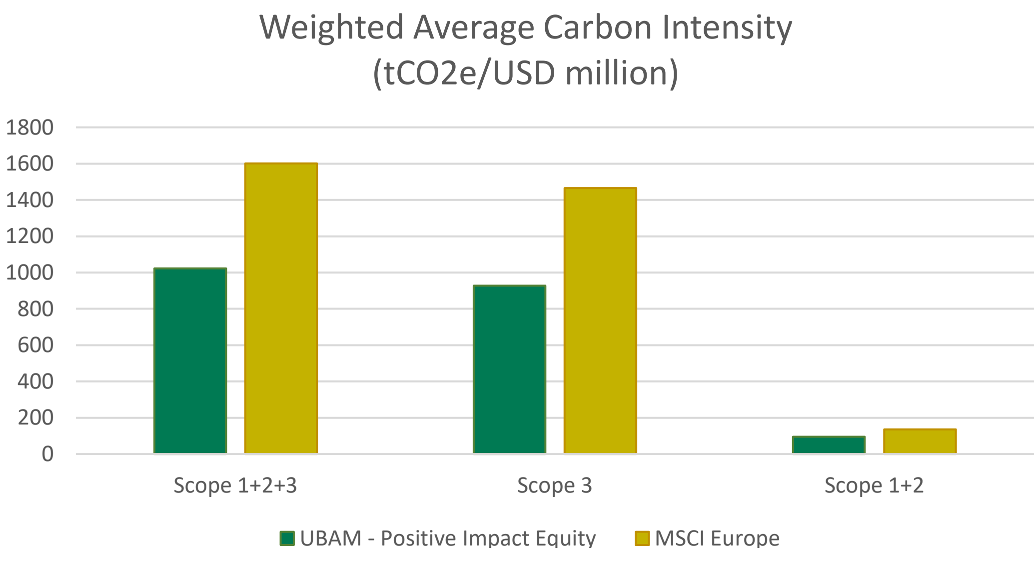
(MSCI methodology provided in the appendix)

➢ **Human rights and Social** (Disclosure: Fund 95.5% / Index:100%)

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIE	42	1	0	42	1	0
MSCI Europe	386	27	2	396	19	0
UBAM - PIE	98%	2%	0%	98%	2%	0%
MSCI Europe	93%	7%	0%	95%	5%	0%

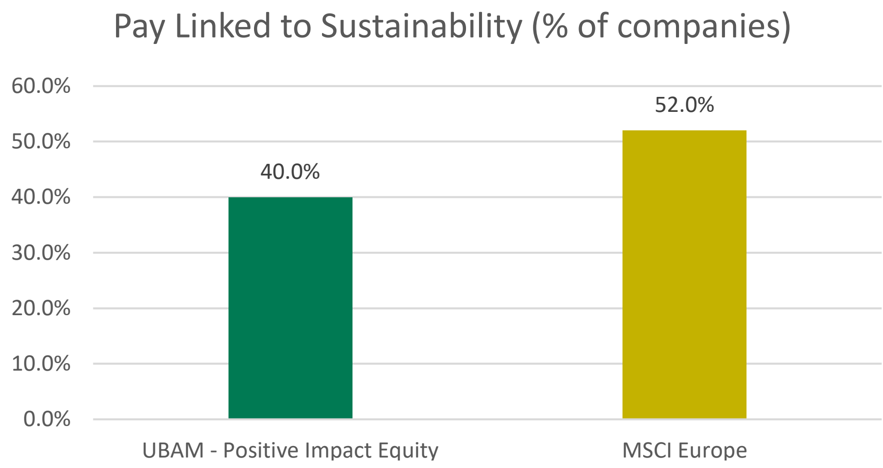
	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIE	43	0	0	43	0	0
MSCI Europe	408	7	0	406	9	0
UBAM - PIE	100%	0%	0%	100%	0%	0%
MSCI Europe	98%	2%	0%	98%	2%	0%

➢ **Environment**
(Coverage Scope 1+2: Fund 74% / Index: 98%)
(Coverage Scope 3: Fund 56% / Index: 85%)

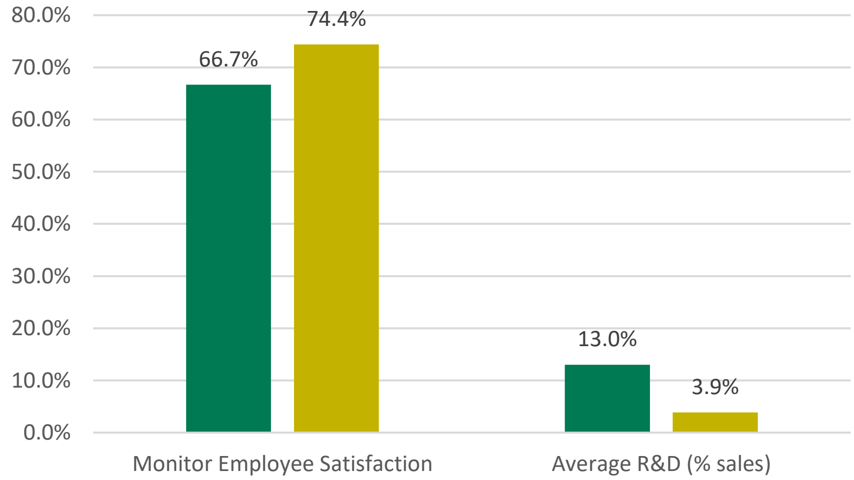


Carbon Intensity metric: UBAM - Positive Impact Equity aims to beat the benchmark (MSCI Europe) for this metric

- **Governance** (Disclosure: Fund 95.5% / Index:100%)



- **Labour**
  Employee Satisfaction (Disclosure: Fund 93% / Index:100%)
  Average R&D: (Disclosure: Fund 84.4% / Index:75%)



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

Outlook

The global scenario reflects moderate growth, higher inflation and tighter monetary regime:

- Global growth scenario for 2022 has been revised down under combined oil shock and lower demand. Europe looks the most exposed, while US and China are less directly impacted.

- On the positive side, one can note:
    - Resilient manufacturing sector (PMI above 50) and still positive economic surprises
    - Solid trend in labor and rising wages
    - Fiscal support still active in Europe and China

- Central banks will raise key rates further to regain control on inflation and re-anchor inflation expectations.

- Governments in Europe should take new fiscal measures to mitigate negative shocks on purchasing power and sectors.

Geopolitics will play a bigger role in the path of stock markets in the future than in recent history:

- Global trade patterns will undoubtedly adapt to a new normal. Self-sufficiency will be valued more dearly, in terms of energy, raw materials and manufacturing capability. There are some areas of the global economy which are now too concentrated to disrupt, for example, much of the semi-conductor supply chain, but other areas will experience government mandated near-shoring.

- The source and supply of commodities will be re-assessed with ‘friendly’ trading blocs grouping together for resilience and untrustworthy dominant regions becoming disrupted where possible.

- Large areas of the sustainable universe will receive an upgrade to underlying growth, for example renewable energy (self-sufficiency) and efficiency (powerful tool in the reduction of fossil fuel use).

Sources: UBP.

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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