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

- 2021 has seen an uneven recovery in the world’s economy, with variations driven to a large extent by the success of measures to stop the spread of Covid-19 and, particularly in the West, the speed of vaccine roll-outs.
- However, the world’s central banks, and increasingly fiscal policymakers as well, have stepped in to fill any gaps with stimulus measures of a kind not seen since the Second World War. This has driven a broad-based rally in risk assets around the world, while bond yields have risen and the US dollar has weakened as a result.
- Global equities ended the quarter up 7.39% (MSCI ACWI*). In the US specifically, the S&P 500* index progressed by 8.44% during the second quarter with a noticeable outperformance of the Growth segment over the Value (11.9% q/q for the Russell 1000 Growth* and +5.06% q/q for the Russell 1000 Value*). Likewise, the MSCI North America Information Technology Index progressed by 11.82% q/q, +3% above the broad S&P 500 index. In this context the MSCI Europe* delivered +6.46%, ahead of the MSCI Europe Small Cap* with + 5.30%. Finally, the Emerging markets* delivered +5.05% but with a high dispersion. Brazil* delivered +22.91% and on the other side, Chile* was down – 14.19%.
- May 2021 will hopefully go down as a turning point in the fight against climate change, with three of the world's largest oil companies suffering defeats not only in the courts but also in their own boardrooms. Royal Dutch Shell became the first company to be ordered by a court to cut its carbon emissions – by 45% by 2030 – while the management teams of two of its American counterparts, Exxon and Chevron, saw their own shareholders vote against inadequate corporate climate targets.
- These events represent a challenge to a sector already under pressure from climate change measures, but they also serve as a warning to boards, management teams and shareholders across a wide range of companies and sectors beyond Big Oil. They show that an old-school approach to governance when it comes to combating climate change will have real economic costs in the future

** 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

- After a market-wide rotation which weighed on equity returns during the second half of Q1, the second quarter of the year displayed more idiosyncratic moves and a back and forth in overall leadership ; growth style stocks led the market in April and June while value components took over in May.
- In light of a strengthening inflationary environment, the managers took steps early during the quarter to balance the portfolio between impact names that have exciting long term growth paths and names that are considered low duration, that is to say, have lower p/e ratios and lower growth prospects.
- Resulting performance was +4.24% (net of fees, IC EUR class) for the UBAM Positive Impact Equity fund, +6.46% for MSCI Europe* and 6.43% for MSCI ACWI* (EUR). The fund's performance should be examined in the context of the adjustments mentioned above which were beneficial when the reflationary backdrop favoured value and cyclical stocks but softened the rise during the market rebound.
- The biggest positive contributors were Signify (+28.19%), Tomra (+29.24%) and Genmab (+22.95%), which all benefit from structural growth drivers in their respective industries and strong earnings visibility. This is reflected thematically as Sustainable Communities performed best thanks to the transformative growth areas it includes which continue to be supported by regulation.
- On the other hand, the negative contributors come once again from our Climate Stability theme were renewable energy stocks continue to be affected by the exceptional returns generated in 2020 and the surge in raw material costs. Companies like Soltec (-28.42%), Hexagon Composites (-21.31%) and TPI Composites (-14.19%) sit at the bottom of the performance list.

* net total return index
** in local currencies

Portfolio activity:

- Following a strong Q1 earning season during which a record number of companies beat expectations, the fund was adjusted to reduce exposure to names whose solid performance made them look somewhat overstretched technically – positions in Tomra, Sika, Thule, Arcadis, Chegg, Countryside and Basic Fit were reduced.
- As introduced during Q1, position building continued in Spie and Salmar which now have a more ideal size within the portfolio, while the remainder of the Laureate Education and Norway Royal Salmon holdings were completely disposed of. As mentioned previously, the team took the decision to look for better ideas within the education space – having already initiated a position in Chegg – and the switch from Norway Royal Salmon into Salmar is based on the fact that the latter has more substantial fire power to invest in ocean fishing pens which are more beneficial for aquaculture from many perspectives in particular fish welfare, stable water temperatures and ecosystem pollution.
- Due to macroeconomic developments and the team's view that a very strong growth bias may provide some near-term headwind, some changes were made to lower the valuation of the portfolio. This translated to reducing positions in Trex (US sustainable construction materials), Croda (ingredients), Ocado (online food shopping), Ecolab (water and energy efficiency) and Hexagon Composites (hydrogen and other gas cylinders). On the other hand positions were increased in Safaricom an d newer holdings Spie and Salmar.

- Finally, a number of new positions were initiated during the quarter:

  US-listed Trane technologies was added to the portfolio – the company is a key player in the HVAC (heating, ventilation and air conditioning) sector in the US where the new president has announced a significant investment in the nation's infrastructure including schools and public buildings.

  Biffa was added to the portfolio – the company provides waste management service in the UK and has ongoing growth projects in food grade plastic recycling. Biffa will also benefit from a recovery from the pandemic as food/beverages and travel/leisure industries reopen.

  A position in Civitas Social Housing was also initiated – a UK listed investment trust that owns real estate focused on providing accommodation for individuals with a variety of special needs. The UK is currently poorly served in this type of housing and many individuals are cared for in the family home. The investment trust is very low beta and offers a 5% yield.

  The last addition to the portfolio in Diasorin – an Italian-listed company, world leader in diagnostic testing equipment used by laboratories and doctors. Diasorin came to prominence last year as the world reacted to the need to test for Covid on an unprecedented scale. At the time the shares rose strongly, however, with the current phase of the pandemic resulting in mass vaccinations, Diasorin's valuation has returned to levels pre-2020. We took the opportunity to start a holding at what appears to be a discount to fair value.

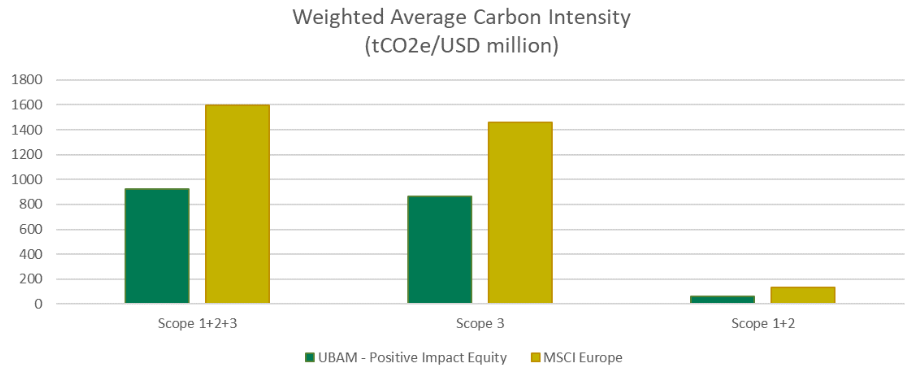
ESG Monitoring

(MSCI methodology provided in the appendix)

- **Human rights and Social** (Disclosure: Fund 92.9% / Index:100%)

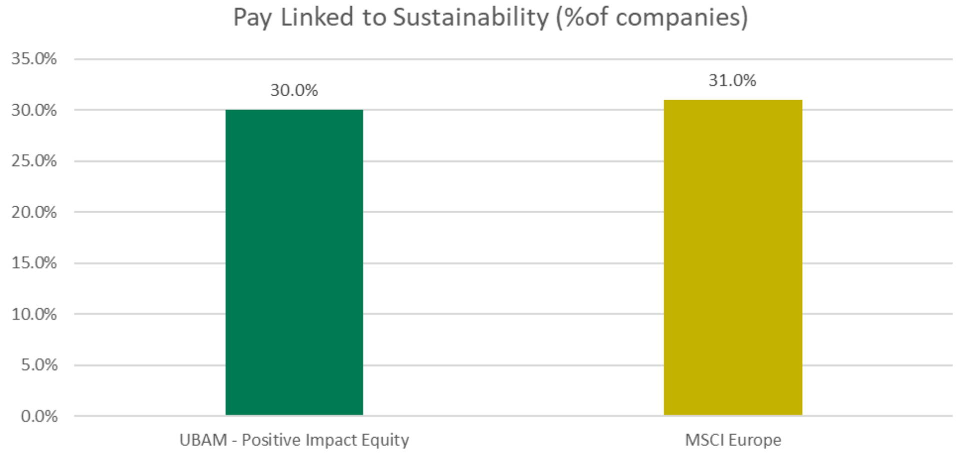
	UN Global Compact			Human Rights Compliance			Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail	Pass	Watchlist	Fail	Pass	Watchlist	Fail
Fund	38	1	0	38	1	0	39	0	0	39	0	0
MSCI Europe	396	32	6	411	22	1	426	9	6	423	11	1
Fund	97%	3%	0%	97%	3%	0%	100%	0%	0%	100%	0%	0%
MSCI Europe	91%	7%	1%	95%	5%	0%	98%	2%	1%	97%	3%	0%

- **Environment** (Disclosure: Fund 97.6% / Index: 99%)

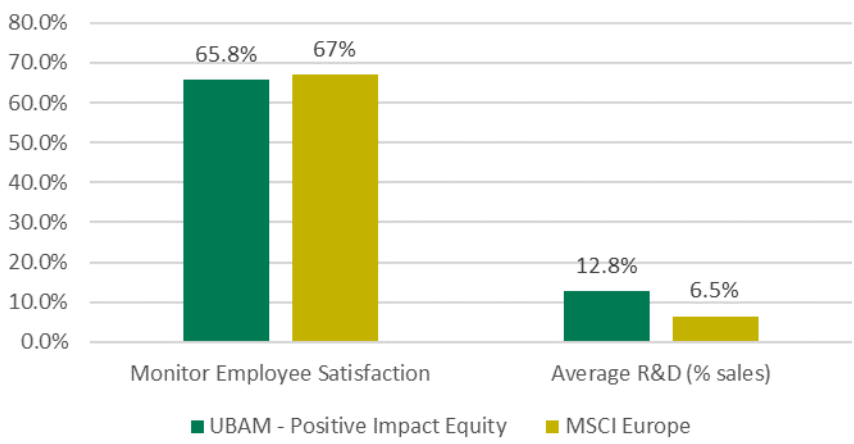


Carbon Intensity metric: UBAM - Positive Impact Equity aims to beat the benchmark (MSCI Europe) for this metric

- **Governance** (Disclosure: Fund 95% / Index:100%)



- **Labour**
  Employee Satisfaction (Disclosure: Fund 90.5% / Index:100%)
  Average R&D: (Disclosure: Fund 88% / Index:100%)



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

Outlook

- A strong economic recovery is expected in Q3, mainly driven by the rebound in domestic demand in developed countries.
    - With the reopening of the economy, demand surged for goods and services after a long lockdown. US consumers spent the direct support delivered by the US Administration in Q1, but they still have large excess savings.
    - In Europe, a similar rebound is underway from Q2 onwards, as governments prevented a large rise in unemployment and protected household incomes. Confidence is increasing further.
    - GDP is expected to accelerate from the reopening phase thanks to a surge in domestic demand. US, UK and European growth should be close to double-digit in H2-21.
    - Consumption and investment should benefit from deployment of the recovery plans adopted in the EU and discussed in the US, but emergency help to sectors and labour will end with reopening economies.
    - In emerging countries, the rebound is limited by the slow vaccination roll out and the renewed lockdowns. In India, local lockdowns led to a recession in Q2, and the recovery has slowed in Thailand and Taiwan.
    - In China, growth has moderated on tight economic policy. Domestic consumption and innovation-driven investment remain medium-term targets, but access to credit seems more limited.
- Central banks will show more divergent strategies; some will shift their communication in favour of a more neutral stance, preparing markets to a tapering next year.
    - Some central banks have mentioned their willingness to taper or adjust rates in the future: Canada, New-Zealand, Korea, Sweden and the UK's BoE have moderated their bond purchases.
    - The Fed should explicitly talk about tapering in Q3 and prepare markets to reduce its purchases in 2022. To the contrary, the ECB should continue to purchase bonds in 2022 as inflation should be back below 2%.
    - Emerging central banks could begin to adjust rates in 2022, as the economy and inflation should be back on trend.

- With the economic cycle set to mature in the coming months, investors will need to become more selective with a focus on segments with above average earnings visibility and solid valuation support. The reflationary backdrop of 2021 has benefited value and cyclical stocks. While we want to capitalise on places where we see the strongest recovery in earnings in the coming months, we retain the barbell strategy between this cyclical exposure and our high-quality transformational growth themes that account for a significant part of our portfolio. As we enter the second quarter's earnings season, we will be particularly focused on high earnings growth figures that most companies should be able to deliver given easy comps due to COVID-19. The key will be able to differentiate between real structural growth and pricing power, and companies simply benefitting from a general rebound in the economy compared to this time last year. Further out, the positive impact identification that lies at the root of UBP's process is well suited to the identification of long-term growth trends which we successfully embed into the 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.
- 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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