Sustainable Investments

Quarterly Newsletter of J. Safra Sarasin Asset Management | 1st Quarter 2020

Editorial

SDG: The Decade of Action is Dawning!

Dear Reader,

In September 2019, UN Secretary-General Antonio Guterres called the world's heads of state to New York City. In view of the ever more obvious effects of climate change, he appealed to stop talking and to start acting. The appeal was heard. Many governments came with additional packages of measures that included various versions of CO2 taxes, emissions trading schemes, innovation programmes and funds to finance the energy transition.

The private sector aligns with the SDGs

In order to achieve the UN Sustainable Development Goals (SDG) by 2030, it is generally assumed that it will require investments of USD 2.5 trillion annually. This financing gap cannot be closed without the participation of the private sector. Thirty major insurance companies and pension funds have announced the Net Zero Alliance, which aims to reduce CO_2 emissions embedded in their portfolios to net zero by 2050. J. Safra Sarasin was also present and signed the Principles of Responsible Banking together with 130 other banks. Many companies presented their programmes for waste management and recycling, avoiding water shortages, achieving the renewable energy revolution and preserving biodiversity. More than twenty industry groups have made new commitments to cleaner, smarter energy. In total, nearly 300 multinational companies from all sectors have committed themselves, generating total sales of $5.5 trillion with more than 16 million employees. This Climate Action Summit 2019 will go down in history as the turning point in the global sustainability challenge. It will be known as the moment when large parts of business leaders and politicians reached out to align their activities with the UN's 17 Sustainable Development Goals and the Paris Climate Accord.

The UN Sustainable Investment Goals

Source: UN

Call for action creates opportunities

We can therefore assume that governments that have committed themselves to the SDGs will align their regulations even more closely with them in the future. This, together with the sharp rise in consumer pressure, creates economic incentives for companies to provide solutions for achieving the SDGs. On the other hand, activities that accelerate climate change will be penalized and are therefore at risk of becoming stranded and discontinued.

Sustainable investors can benefit

In the discussion about the conversion of the global economy to sustainable activities, the count of cost is often dominating. But the aim is to redirect economic and financial flows, not to displace them. Those who invest in time in the major growth themes implied in the SDG, such as the energy transition, water provision, sustainable consumption and technologies, and at the same time avoid those companies that come under increasing regulatory and consumer pressure, will not only make a contribution to supporting the development goals, but can also expect solid returns. The impact of the positive side effects, such as cleaner air, better health, fewer infrastructure bottlenecks and greater innovative power, is widely underestimated. The dawning decade of the 2020ies is shaping up to become the decade of action, the decade of impact and thus a decade of opportunity!

Best wishes,

Jan Amrit Poser
Chief Strategist & Head Sustainability

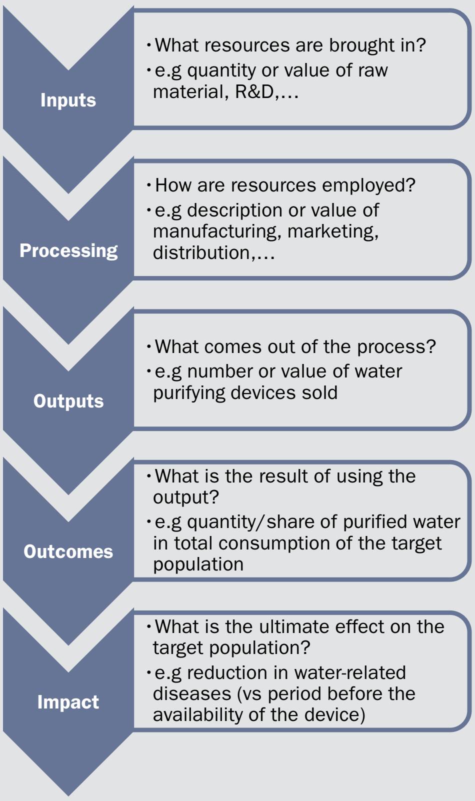
Investing along the SDGs – on the basis of innovative research

A growing number of investors are striving for a positive ecological or social impact in addition to the financial return. The conservation of natural resources, access to health and education services and the acceleration of energy system transformation are just some of the impact issues outlined by important global frameworks such as the Sustainable Development Goals (SDGs) of the United Nations and the Paris Climate Agreement in 2015. To achieve the desired financial and non-financial benefits, impact considerations can and should be considered at every step of the investment process.

It all starts with knowing your impact

Impact is neither easy to define nor easy to measure. This is mainly due to the fact that the effect only becomes clear at the end of a complex causal chain. There are no neutral investments. In addition, the effect is multi-dimensional. Therefore it must be assessed which effects companies have on their stakeholders through their business relationships. But also whether their products and services are part of the solution (or problem) with regard to sustainability challenges. The way companies ultimately share value and profits with their stakeholders is another piece of the impact puzzle.

Impact is the ultimate effect of (un)intended activities on a given population or system



Source: Bank J. Safra Sarasin, 2019

Extension of the existing JSS sustainability methodology

In order to be able to offer our clients meaningful investment strategies that are in line with the SDGs, it is necessary to consistently adopt this perspective in the investment process. Both negative and positive aspects need to be taken into account in order to grasp their full implications. This requires a multi-level SDG analysis model.

Three-stage SDG analysis model

Source: Bank J. Safra Sarasin, 2019

Managing sustainability risks: As economic players that coordinate natural, technical and human production factors, companies influence the environment and society through their activities - from the supply chain to the use of their products. By promoting sustainability as part of their business practices, they can achieve a positive impact while building more robust relationships within their ecosystem. This is a key aspect of our analysis. We use technical ESG parameters to help us in assessing a company's operational excellence and avoid negative impacts (e.g. fossil energy business models). This is the first step of the analysis.

Targeting positive impact: If companies succeed in turning sustainability challenges into marketable solutions, this will also be a strong and significant driver for innovation and long-term business opportunities. In a second step, we therefore define the relevant impact categories necessary to achieve the 17 SDGs. These include a number of products and services that can be divided into the following 4 sub-categories:

- Preserving Natural Capital
- Fulfilling Basic Needs
- Achieving the Energy Transition
- Empowering People

We actively measure the exposure of companies to these sustainable products and services.

Ensuring financial quality and stability: We find SDG investment opportunities in every sector. The third and final step is to ensure the financial quality and stability of our invested companies.

If all three elements are fulfilled, a specific company represents an interesting investment opportunity for us. In summary, the inclusion of impact aspects in investment considerations is ultimately a way of realigning and expanding the company investment analysis in general.

Impact Reporting

Transparent reporting – a central element of the SDG agenda

In addition to risk reduction and the perception of investment opportunities, transparency is one of the main concerns of sustainable investors. In order to benefit as much as possible from the inclusion of sustainability considerations, these are ideally integrated along the entire investment process and also taken into account in portfolio reporting. This also applies to SDG-oriented investment strategies. A comprehensive impact report should contain elements on the ESG quality of the portfolio which are complemented by concrete information on the positive SDG contribution of the portfolio companies. In this article, we highlight the key components of comprehensive impact reporting.

Our aspiration to offer meaningful SDG reporting

A major challenge for asset managers is to make the "effect" or impact of an investment strategy visible and tangible for the end investor and to transform the abstract concept of portfolio holdings into a meaningful "impact report". In order to provide our clients with the most comprehensive SDG reporting possible, we aim to report both quantitative and qualitative elements. For both areas, we rely on good communication by the analysed companies, which then allows us to evaluate products and services with a positive impact.

Elements of our current framework

There is currently a lack of a uniform impact reporting standard and, to some extent, of data that would enable a globally standardised framework. However, this should not prevent us from providing our customers with the corresponding insights. As a first step, it is worth dividing the 17 Sustainable Development Goals into sub-categories in order to keep the reporting overseeable and clear. Not all of the 17 objectives are investable through targeted investments (e.g. peace and justice or partnerships), but for most of them it is relatively easy to identify related products and services that are needed to achieve the objectives. These sub-categories are presented below in our J. Safra Sarasin Impact Monitor.

The next step is to determine the sales per company which are achieved within these SDG product and services categories.

In order to meet the described qualitative reporting requirements, we also include concrete company examples. In this section, the corresponding SDG products and services are presented on a company level. We also show how these are embedded in the overall corporate strategy and what level of relevancy they have for a particular investment case.

Our future impact reporting activities

Our sustainability and impact reporting framework is constantly being further developed. In the future, we want to focus on adding more tangible elements that show in a simple way how our investment decisions have a positive impact on the UNs Sustainable Development Goals and also show how we can avoid negative contribution.

J. Safra Sarasin Impact Monitor

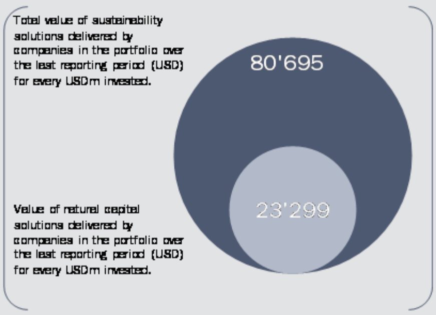
Source: Bank J. Safra Sarasin, 2019

Measuring portfolio exposure towards sustainability solutions

Natural Capital

Proportion of holdings offering solutions in the field of Natural Capital.	31%
Number of products and services offered by holdings to address challenges around Natural Capital.	22
Share of revenue from Natural Capital solutions for holdings exposed to this impact category.	20%

Product/Service Type	Company Example
Waste collection	Republic Services, Inc.
Water distribution	American Water Works Company, Inc.
Services facilitating environmental progress	Tetra Tech, Inc.
Waste-water treatment	American Water Works Company, Inc.
Recycling services	Republic Services, Inc.



Source: Bank J. Safra Sarasin, 2019

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Andrea Weber
Sustainable Investment Analyst

Interview: An account on how to create impact

"Getting to the heart of the matter!"

Sasja Beslik joined J. Safra Sarasin as Head Sustainable Finance Development in September 2019. For twenty years he has led the sustainability franchises of several well-known asset managers. During his career, he has gone to the heart of the sustainability issues facing companies in the world: the supply chain in Emerging Markets. Sasja has told us what it takes to make a true impact.

Sasja, how can you really know if the company you invest in really does what they say they do regarding sustainability?

I have received this question many times during my 20 years working on sustainability in the financial industry. A glossy report and nice advertising pieces on why and how responsibility is dealt with within the company in all honour, but you have to get to the heart of the matter and engage with the company. So, every year I have spent 160 traveling days per year on average visiting companies and businesses all over the world. I have seen all continents tree times over and visited businesses on locations that most people usually don't visit and don't even think of in relation to their investments. From sweatshops throughout Asia, to mines and oil fields across Africa, to forestry and food production fields of Latin America. Greenland, Great Barrier reef, Siberian tundra, North American tar-sands production, well I can say I have seen it all and I have talked to people affected by businesses done badly and people doing business, sometimes really trying to do whatever they can to conduct it in line with how it should be done, in a sustainable way, and sometimes not at all.

Which experience has marked you most?

One of these trips a couple of years ago has left a significant trace in my memory. While conducting meetings with pharmaceutical companies in India, moving between comfortable air-conditioned offices in Bangalore, I received an email from a local NGO that some of these companies and their suppliers severely pollute local water supplies for millions of people living nearby and in close proximity to the production sites. Bear in mind, India is today world's largest producer of bulk medicines and ingredients in the medicines we consume today all over the world. Aside of that, the NGO claimed that levels of anti-resistant bacteria sampled in local water streams indicated a 70% higher presence than allowed by regulations in India. Making the decision to visit the sites where this was taking place was easy, but to get there took us almost 24 hours. We had investments in most of the large Pharma companies operating in India; we had information that something is not right and it was something that affected millions of people. Aside of that, we sold our clients sustainable investments.

Source: Sasja Beslik

Landing over Vizagapatam in India late in the night did not left too much time to organise a trip with a local team of researchers and photographers. We wanted to document this. When we took off, all of us expected a long drive, as it usually is, through bushes and remote places far away from cities. This time we barely spent two hours in a car driving south from the city. The smell was the first sign. The terrible odour mixed with mid-day heat was creeping through the car's ventilation systems and under our skins. Almost 15 minutes before we entered the bank of the river close to several pharma-facilities, the smell had become unbearable. Masses of white foam covering the surface of the water as far as the eye could see. The amount of pollution was terrible. Downstream we could sight kids playing on the shore of this river, as if everything was just ok. We took water samples, talked to the affected population, filmed the river and then went to the local environmental offices to speak to the Chief Officer. After a long conversation, he told us that pharma companies and their suppliers breach regulations from time to time and discharge water in unlawful ways and get only petty fines.

What was the success of your trip?

We took material home analysed samples and then decided to send the information and the film-clips to CEOs of pharma-companies we had investments in. Usually when wrote letters to CEOs, the response would come months later, but this time it came after three days. The insights we had and the severity of the situation on the ground was too obvious. After numerous meetings and engagements with large Pharma companies in the US and UK, we managed to agree with them the installation and refurbishment of water treatment plants in the area as well as regular follow-up from our side. After all, we are investors and to improve these conditions meant that companies would have less risk and costs both in relation to regulation but also in relation to local communities, that have disputed their business practices for a long time.

Source: Sasja Beslik

What is the lesson learnt?

Money can make a big difference. Invested in a sustainable way, capital can achieve a real change and an impact. Why? Because we have a choice and because it is part of the objectives we have when we invest. And coming back to the first question: "How do I know?" Well, you need to find out and you can't do it only behind the desk.

An update on ground-breaking events in 2019

Building Bridges, SDG Summit & Climate Week

The second half of 2019 has featured an increasing number of high-level events to foster the Sustainability agenda and advance Sustainable Investments. Bank J. Safra Sarasin has continued to be at the forefront of the movement, signing the Principles for Responsible Investments as founding members and contributing to the debates with keynote speeches, in workshops and panel discussions.

UN GenSec Guterres at PRB Ceremony

Source: Andrea Weber

Climate Week New York City

This year saw the biggest Climate Week event on Earth to date, encompassing the United Nations Secretary-General's Climate Action Summit and over 350 related side-events. Hosting presidents, policymakers, business leaders and campaigners, Climate Week NYC 2019 brought together all those fighting to tackle climate change with the most ambitious and comprehensive program to date. The Opening Ceremony, which took place ahead of the Climate Action Summit, set the tone for the challenges and opportunities ahead. The morning boasted a stellar speaker line up of world leaders, US governors and global business chiefs. They all joined this central platform to tackle the most pressing issues in the fight against climate change by discussing new solutions and establishing partnerships for the UN Sustainable Development Goals (SDG).

Prior to that, the UN Secretary-General had opened the signing ceremony for the Principles for Responsible Investments (PRB). Senior Sustainability Expert **Andrea Weber** (photo) was among 130 CEOs, Chairmen and officials, representing a third of the global banking system, who committed to support the Paris Accord and the SDGs.

World Economic Forum SDG Summit

Following the Banks, large Insurances and asset owners under the leadership of Allianz presented the Net-Zero-Carbon Initiative that committed to decarbonise portfolios by 2050. Overall, more than 20 new business commitments were made. A particularly noteworthy announcement came from RE100 member Unilever on its remarkable progress towards the goal of becoming a carbon neutral company before 2030. In particular at the World Economic Forum's Sustainable Development Impact Summit which was hosted by the Swiss Foreign Minister saw a number of presentations of business initiatives such as the Platform for A Circular Economy (PACE) or the WEF's working group on Water Stress. A remarkable session was conducted by the thought-leaders of the hard-to-abate sectors such as aviation trucking and shipping who revealed a partnership to create a vision to decarbonise these challenged industries by 2050.

Swiss Foreign Minister I. Cassis at WEF

Source: Andrea Weber

Reflecting on the discussions, debates, commitments and actions that have come out of this year's events in NYC, it is clear there is a shared vision across our powerful network of governments and businesses to shape the world for the better.

Building Bridges Summit Geneva

In October the Building Bridges Summit in Geneva was opened by the President of the Swiss Confederation and brought together most of the relevant players in the Swiss financial sector to make a commitment to the Sustainable Development Goals. The Summit which was attended by more than 900 national and international guests from the network of Financial Centers for Sustainability (FC4S) and the United Nations, featured the innovation power of the Swiss Financial Center in Sustainable Finance.

Jan Poser speaks at Building Bridges GE

Source: Hélène-Sophie Renneboog

Sustainable Finance is all the rage

Genuine interest from institutional investors for mitigating the financial and physical risks from Climate Change and rising regulatory pressure from the EU Action Plan for Financing Sustainable Growth are driving demand for events dedicated to Sustainable Finance. Sustainable Investment Research has spoken at a number of these events, ranging from the Frankfurt School Conference on Sustainable Investments via the Lantern Fund Forum in Lugano, the well-known oikos Conference of the University of St Gall to the Investment Fund Days of the Börsenzeitung and the Bundesbank's Conference on Sustainable Finance. **Jan Amrit Poser** (pictured above) also spoke on a panel with ABB CEO Peter Voser at an event of the engagement platform SWIPRA and with Cartier CEO Cyrille Vigneron at an event of the magazine BILAN. The SDGs are on everybody's mind and are becoming the new trend of Sustainable Finance.

High-Impact Companies: Rating Updates

Horizon Therapeutics – Medicines addressing WHO priority diseases
Horizon Therapeutics plc is a rare disease biopharmaceutical company focusing on researching, developing and commercializing medicines that address needs for people impacted by rare and rheumatic diseases. The Company markets eleven therapeutics addressing World Health Organization (WHO) priority diseases, such as orphan diseases, arthritis, pain and/or inflammatory diseases, and rheumatology. Horizon Therapeutics is a company with very strong exposure to SDG 3 "Good Health and Well-Being" and hence falls into the J. Safra Sarasin SDG sub-theme "Fulfilling Basis Needs". 100% of the company's overall revenue is linked to the treatment of rare and rheumatic diseases. By actively partnering with multiple organizations, Horizon Therapeutics furthermore raises awareness for many underrepresented diseases and advocates on behalf of patients and their communities.

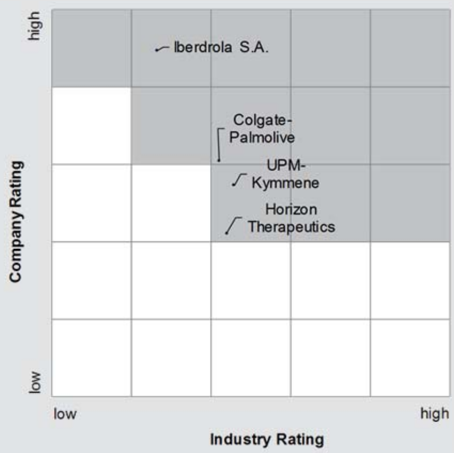
Colgate-Palmolive – Providing Access to Affordable Oral and Personal Care Products
Colgate-Palmolive is an American multinational consumer products company with substantial geographic exposure in emerging markets. The company's overall sustainability strategy has taken into account the UN Sustainable Development Goals. Colgate-Palmolive is one of the companies with strong exposure to the J. Safra Sarasin SDG sub-theme "Fulfilling Basis Needs" (the others being: "Preserving Natural Capital", "Achieving the Energy Transition" and "Empowering People"). An estimated overall revenue percentage of 60-70% is linked to products such as personal hygiene incl. soaps, as well as oral products such as toothpaste and brushes. The company is not only targeting to improve the sustainability profile of existing products, but also to expand the range of affordable health and wellness products in underserved communities.

UPM-Kymmene – Alternative energy, chemicals and materials from re-growing and sustainably managed resources
UPM-Kymmene Oyj is a global forest company headquartered in Finland. The company aspires to be a bold Biofore innovator based on the versatile use of renewable wood biomass. Its business segments include Biorefining, Energy, Biocomposites and Biochemicals. Within these segments, UPM-Kymmene produces wood-based renewable diesel that is suitable for all diesel engines, generates renewable energy at eight hydropower plants, offers and develops wood-based bio-chemicals for a variety of uses and participates in the recycling of paper and plastic to develop products for construction. Furthermore, the company offers a wide range of alternatives for fossil-based materials i.e. used in packaging. The overall revenue percentage from these activities is estimated to be 20%-40%. UPM has a growing exposure to two of our SDG sub-themes: "Preserving Natural Capital" and "Achieving the Energy Transition".

Iberdrola S.A. – Producer of electricity and natural gas responding to the energy transition challenge
Iberdrola S.A. is a Spanish company specialized in the production, distribution and marketing of electricity and natural gas. Iberdrola continues to strengthen its positions in the field of renewable energies. Today, the firm continues to demonstrate its industry leadership towards the growth of renewable energy. Iberdrola will benefit from the implementation of the clean energy plan by the Spanish government that targets 74% renewable energy by 2030 and 100% by 2050.

Iberdrola has a strong exposure to SDG 7 "Affordable and Clean energy" with already 60% installed capacity of renewables and strong expansion ambition in the domain.
It also responds to the SDG 13 "Climate Action" aiming to become carbon neutral by 2050 and reducing the carbon emissions of its operations by 50% by 2030. Therefore, Iberdrola has strong exposure to the J. Safra Sarasin SDG sub-theme "Achieving the Energy Transition".
The Spanish company is a leader in the renewable energy sector, manages the major issues of the energy transition well and aligns with Spanish government carbon reduction effort targets. Like all other examples presented here, the company is part of our Bank J. Safra Sarasin Sustainable Investment Universe.

Sarasin Sustainability-Matrix®



Sustainable Investment Universe

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Sustainable Investment Research

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Sustainability Rating Methodology

The environmental, social and governance (ESG) analysis of companies is based on a proprietary assessment methodology developed by the Sustainable Investment Research Department of BJSS. All ratings are conducted by in-house sustainability analysts. The sustainability rating incorporates two dimensions which are combined in the Sarasin Sustainability-Matrix® :

Sector Rating: Comparative assessment of industries based upon their impacts on environment and society.

Company Rating: Comparative assessment of companies within their industry based upon their performance to manage their environmental, social and governance risks and opportunities.

Investment Universe: Only companies with a sufficiently high Company Rating (shaded area) qualify for Bank J. Safra Sarasin sustainability funds.

Key issues

When doing a sustainability rating, the analysts in the Sustainable Investment Research Department assess how well companies manage their main stakeholders’ expectations (e.g. employees, suppliers, customers) and how well they manage related general and industry-specific environmental, social and governance risks and opportunities. The company’s management quality with respect to ESG risks and opportunities is compared with its industry peers.

Controversial activities (exclusions)

Certain business activities which are not deemed to be compatible with sustainable development (e.g. armaments, nuclear power, tobacco, pornography) can lead to the exclusion of companies from the Bank J. Safra Sarasin sustainable investment universe.

Data sources

The Sustainable Investment Research Department uses a variety of data sources which are publicly available (e.g. company reports, press, internet search) and data/information provided by service providers which are collecting financial, environmental, social, governance and reputational risk data on behalf of the Sustainable Investment Research Department.

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