J. SAFRA SARASIN
SUSTAINABLE ASSET MANAGEMENT

Sustainable Investments

Quarterly Newsletter of J. Safra Sarasin Sustainable Asset Management
1st Quarter 2022

A little less conversation, a little more (climate) action

Every Investor must act today to limit global warming to 1.5°C degrees. We show how J. Safra Sarasin has started.

Dear reader
To limit impacts of climate change and keep global warming to 1.5°C, greenhouse gas (GHG) emissions must be halved by 2030, for a pathway to net-zero by 2050. The UN Environment Programme concludes in its 2021 Emission Gap Report, that there is still a large ambition gap by 2030 and that we are not on track. For an orderly transition to a low-carbon economy, enormous investments are required. The International Energy Agency (IEA) estimates, USD 150 trillion will be needed over the next decade.

Talk is still cheap for countries and for companies alike
Interestingly, commitments to transition investment portfolios to net-zero from asset managers, asset owners, banks and insurers have already reached USD 130 trillion assets under management according to the Glasgow Financial Alliance for Net-Zero (GFANZ). Unfortunately, the way is littered with broken promises from countries and corporates when it comes to climate action. The latest example is the unfulfilled promise from the Copenhagen climate summit in 2009. Developed countries fell short to drum up the USD 100 billion promised to developing countries by 2020 to combat climate change. Investors are not doing any better. Researchers from the University of Zurich and ETH Zurich found that financial institutions' climate-related disclosures following the recommendations by the Taskforce on Climate-Related Financial Disclosure (TCFD) are mired by cherry-picking and are often not material. Especially poor are climate-related disclosures in the sections on strategies, metrics and targets. Profound quantitative assessments of climate-related risks still are the exception.

Evaluating effects of climate change is part of our DNA
As an active and sustainable asset manager, evaluating risks and identifying trends is crucial for investment performance. Companies that do not adapt to climate change will go bankrupt, says Marc Carney, the former Governor of the Bank of England and the UN's envoy on Climate and Finance. When oil and gas reserves must stay in the ground to prevent the world from further warming, whole business models are put at risk. The IEA has called for a hard stop on financing new fossil fuel projects. The EU has introduced a carbon pricing scheme where companies must pay for their carbon emissions. Prices have risen from below ten EUR per tonnes in 2017 to over 80 EUR recently. The EU's New Green Deal wants to direct investments into climate solution providers like wind turbine manufacturers and therefore affect asset prices.

EU Carbon Permits

Source: European Union EU Trading Sceme, 2021

As part of our sustainable investment strategy, we have developed several tools to judge the performance of companies when it comes to climate action. As part of our net-zero commitments, we have pledged to make all our portfolios carbon neutral by 2035.

This issue of the Sustainable Investments Quarterly highlights how we are already taking climate action today to ensure it does not become another unfulfilled promise. We urge others to do the same.

Best wishes,
Oliver A. Cartade
Head Asset Management

Net Zero Asset Managers: Assemble!

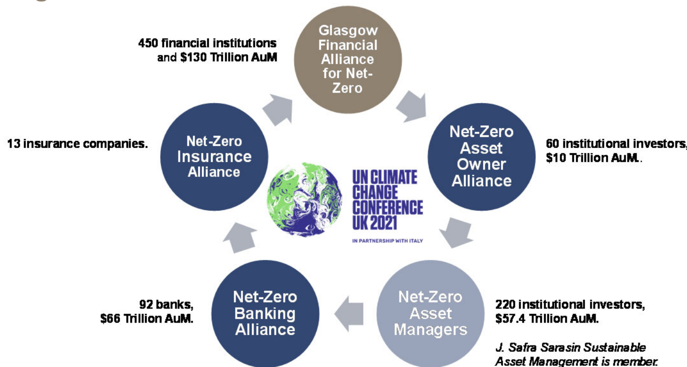
The Net-Zero Asset Managers Initiative gathers 220 asset managers from around the world managing USD 57 trillion and committed to transition investment portfolios to net zero by 2050 or sooner and participates in the Glasgow Financial Alliance for Net-Zero.

The Net Zero Asset Managers Commitment
The Net Zero Asset Managers (NZAM) is an initiative consisting of international asset managers and was launched in December 2020. The initiative aims to mobilise the asset manager industry to transition to net zero and deliver ambitious climate action and investment strategies to achieve the goals set out by the Paris Agreement. By December 2021, NZAM has 220 signatories managing USD 57 trillion assets under management (AUM).The signatories commit to support the goal of net zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit global warming to 1.5°C and support investing aligned with net zero emissions by 2050 or sooner. The initiative is endorsed and managed by six other investor networks: Asia Investor Group on Climate Change (AIGCC), Carbon Disclosure Project (CDP), Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC), Principles for Responsible Investment (UN PRI). The signatories commit to work with clients on decarbonisation goals and set interim targets for AUM managed in line with net zero. For the AUM committed to be managed in line with net zero, the signatories commit to:

- Set targets for 2030 in line with 50% GHG reduction
- Scope 1 & 2 emissions and where possible material scope 3
- Prioritise real economy emission reductions
- If using offsets invest in long-term removal

To increase accountability, asset managers should provide information to clients on net zero investing, climate risk and opportunities, implement stewardship and engagement activities, and publish TCFD disclosures and climate action plans.

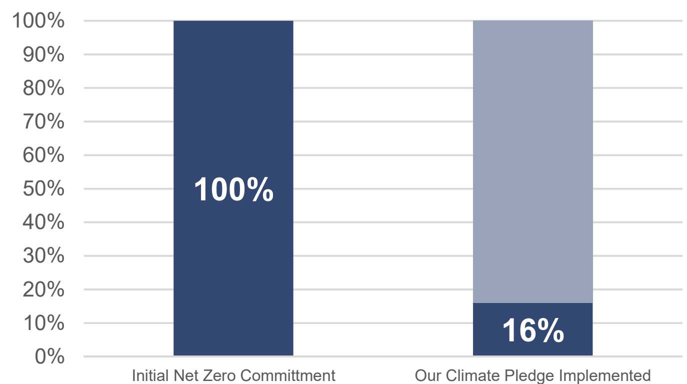
Glasgow Financial Alliance for Net-Zero



Source: Bank J. Safra Sarasin, 06.12.2020

Glasgow Financial Alliance for Net-Zero
Together with the UN-convened Net Zero Insurance Alliance, Net Zero Banking Alliance, Net Zero Asset Owner Alliance, the NZAM is part of the strategic and sector-wide forum of the Glasgow Financial Alliance for Net Zero (GFANZ) that is led by Mark Carney, the UN Special Envoy on Climate and Finance. At the UN Climate Change Conference COP 26, GFANZ brought together 450 financial institutions with USD 130 trillion AUM aiming to transition their investments to net-zero by 2050 or sooner.

J. Safra Sarasin Commitment and Implementation in % of AUM



Source: J. Safra Sarasin Sustainable Asset Management, 17.12.2021.

Climate Action at J. Safra Sarasin
The Bank J. Safra Sarasin has a long-standing commitment on climate action and is active member in a many sustainability initiatives aiming to achieve net-zero outcomes including (UN PRI) and IIGCC. In 2020, J. Safra Sarasin Sustainable Asset Management launched its Climate Pledge aiming for carbon neutral outcomes for all assets under management by 2035. In support of our Climate Pledge, J. Safra Sarasin Sustainable Asset Management joined the NZAM in April 2021. In October 2021, we participated in the first NZAM progress report among 43 signatories, where we could report an initial net zero commitment for 100% of AUM and already an implementation of our Climate Pledge for 16% of AUM. As we continue our sustainability journey, we aim to maintain our leading role driving climate across the financial industry.

Sasha Cisar
Sustainability Manager

Climate pledge implementation

FAQ Climate pledge – Net Zero investment targets

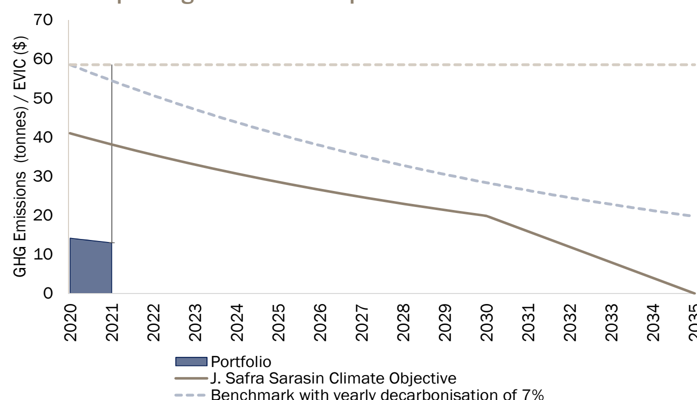
Carbon-neutral portfolios by 2035: implementing a pledge such as this raises a number of specific questions. Our responses regarding the decisions we have taken are outlined below.

Why are we doing this?
In May 2020, J. Safra Sarasin Sustainable Asset Management launched a climate pledge aimed at achieving carbon neutrality by 2035. While the operations of a wealth manager generate minimal levels of greenhouse gas emissions, the same may not be true for investors' portfolios – or in other words, the companies in which they invest. Carbon neutrality must be considered in the invested companies. In order to manage this, we have introduced targets to cut greenhouse gases and are providing annual reports on our progress towards meeting these goals.

What exactly are we measuring?
We measure emissions of companies that are financed by the investor. For each company, this is calculated on the basis of scope 1 and 2 greenhouse gas emissions in tonnes (tCO_2e), divided by the enterprise value including cash (EVIC) – in other words, the company's carbon footprint financed by the investor. Six greenhouse gases are covered, of which CO_2 is the most common. The corresponding measurements are converted into CO_2 equivalents (CO_2e) in tonnes on the basis of their impact on global warming. Overall, there are three categories of greenhouse gas emissions, which are referred to as scopes. Scope 1 emissions are direct emissions from the company's operations, such as the petrol consumption of company cars. Scope 2 emissions are indirect emissions from the energy used by the company. Switching to renewable energies can lead to a rapid reduction in these emissions. Scope 3 emissions are all other emissions that are generated indirectly, such as those of a supplier or relating to the use of life of a product like the emissions from fossil fuels in a car. Due to the unreliable data situation, we are initially limiting our implementation to scopes 1 and 2. A normalisation factor is required to take account of a company's size in measuring its emissions. We are using the definition of the EU Technical Expert Group, which is the EVIC per million invested. The enterprise value (EV) equates to the equity value plus net debt, whereby net debt is defined as debt minus cash.

What targets are we setting?
Scientists are now painting a clear picture of what we have to do to limit global warming to 1.5 degrees Celsius. Initially, a 50% cut in global greenhouse gas emissions is required by 2030, to be followed by a reduction to net zero no later than 2050. Our climate pledge is geared towards meeting these targets. The cut-off date for defining the starting point for our portfolios is 31st December 2020. Our standard method for setting the initial target is based on the EU's regulation on climate transition benchmarks. The starting point for the target is 30% below the benchmark level. For exceptional cases such as strategies without a benchmark, the carbon footprint as at 31 December 2020 marks the starting point. The target for greenhouse gas emissions in the portfolio will be reduced by 7% annually between 2020 and 2030. From 2030 onwards, a linear reduction is envisaged to reach zero in 2035.

Portfolio reporting – carbon footprint



Source: J. Safra Sarasin, 30 November 2021

What complexities are involved?
The methodology is limited to companies (equities, bonds) and is not comparable with the carbon footprint of individual countries. Green bonds have a carbon footprint of zero as the footprint of the projects financed differs materially from that of the issuers. Fixed-income securities for the purpose of funding activities to reduce or prevent damage to the environment and climate are designated as green bonds.

From an investor's perspective, what are the benefits of integrating a carbon target into the investment process?
The advantages for investors are two-fold. Firstly, as wealth managers we can ensure that, as well as financial aspects, climate considerations are actively integrated into the investment process. As a result, companies that are failing to make progress and are not geared towards carbon neutrality are excluded. Secondly, we always have a record of the greenhouse gas emissions relating to the portfolios and can tailor our offering to investors' needs.

Benjamin Gränicher
Sustainable Investment Analyst

Investability of portfolios with greenhouse gas reduction targets

Broad diversification still possible

Companies from the emerging markets have a bad reputation when it comes to greenhouse gas emissions. However, on closer inspection only a small number of businesses are responsible for these emissions. Emerging markets still offer investment options.

How can we ensure that portfolios are aligned with a carbon-neutral world and, at the same time, generate the same financial returns? This issue is dominating the implementation of our climate pledge, under which we are planning to make our portfolios carbon neutral by 2035. Before we set this target, we examined numerous indices' greenhouse gas emissions. The high level of emissions in emerging market indices was especially striking.

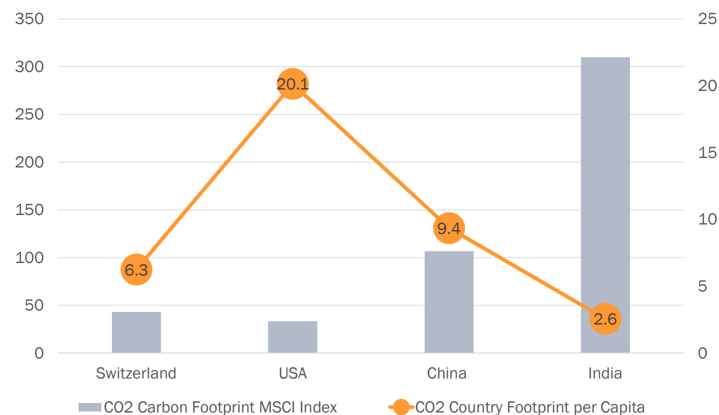
The focus is on businesses

J. Safra Sarasin Asset Management's climate pledge "only" encompasses targets for companies, not countries, within the portfolio. There are two reasons for this. First, the way that greenhouse gas emissions by businesses are measured differs from the methodology used for nation states. Second, the underlying economy is responsible for a country's greenhouse gas emissions. If companies cut their greenhouse gases, this automatically reduces the emissions of the respective country. That said, it is worth making a comparison.

Emerging nations are often treated unfairly

When we look at the carbon footprints of indices and countries, it is striking how businesses in emerging markets such as China or India have a comparatively high CO_2 footprint. But concluding that this makes emerging nations the biggest climate sinners would be to only tell half the story. Instead, this is more a reflection of how the respective country's index is composed. This becomes clear when we look at a comparison of per capita emissions. While Switzerland comes out well in both metrics, the tables are turned when we compare the United States and India. As greenhouse gas emissions generally rise as prosperity increases, it is important that as time goes on economic growth in the emerging markets decouples from emissions.

Carbon footprint of countries and equity indices



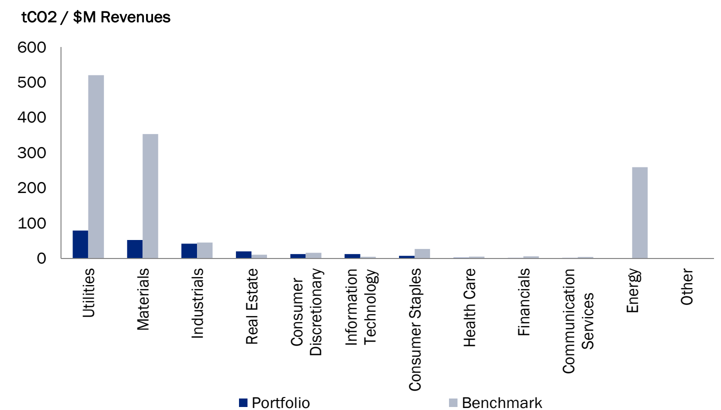
Source: J. Safra Sarasin, MSCI ESG Research, 6 December 2021

For example, China became the biggest emitter of greenhouse gases in a short space of time. China is also likely to catch up with the EU in the next few years in terms of its cumulative emissions of greenhouse gases. Alongside decoupling emissions from economic growth, the developed nations will at the same time have to cut their emissions sharply if we are to limit global warming to 1.5 degrees Celsius.

Carbon footprint is not distributed evenly

A high intensity of greenhouse gas emissions in a particular country does not automatically mean it will not be home to any investable companies. A small number of businesses generate the lion's share of greenhouse gas emissions. In the MSCI World Index utilities and commodities firms the main sources of emissions within the benchmark. That said, their high emissions are in contrast to these corporations' low index weight of around 3%.

Carbon intensity by sector



Source: J. Safra Sarasin, MSCI ESG Research, 30 November 2021

Portfolios subject to the climate pledge can still be broadly diversified

If we screen out the 10% of companies with the highest emissions, this often slashes an index's average greenhouse gas intensity by half. Even for a portfolio that aims to cut greenhouse gases, the remaining 90% can certainly be considered for investment. This applies to companies from emerging markets and businesses from industrialised nations alike. A broad level of diversification therefore remains possible.

Sebastian Wiesel
Sustainable Investment Analyst

Our “Climate Engagement” efforts aim to help us better understand the net-zero alignment of our holdings

Vestas plans to achieve carbon neutrality by 2030

In our Global Climate 2035 investment strategy we place a large emphasis on better understanding the net zero emission pathway alignment and the climate change related risks and opportunities of our holdings. We carried out 18 climate engagement discussions and we would like to present one case study about Vestas.

Vestas plans to achieve carbon neutrality in their operations by 2030 without the use of carbon offsets

Wind turbine producer Vestas published an ambitious carbon neutrality target to reduce scope 1 and 2 greenhouse gas (GHG) emissions from the company's own operations by 100% by 2030 from a 2019 baseline. This target was validated by the Science Based Target Initiative, which confirmed that this goal is in-line with keeping the global warming to 1.5°C above the pre-industrial temperature level. By 2020, Vestas has already achieved a large part of its plan by cutting scope 1 and 2 emissions by 33%. This was primarily helped by shifting Vestas' electricity purchases to 100% renewable sources and by transforming 35% of its automotive fleet to hybrid or electric vehicles. Vestas plans to further reduce its scope 1 and 2 emissions by 55% by 2025 versus the 2019 level, mainly through the help of using more renewable energy to heat factories and by further shifting its car and truck service vehicle fleet towards electric or more sustainably fuelled vehicles. Although Vestas is entitled to a limited amount of carbon offsets related to their wind turbines operated in test centres, they do not plan to use these offsets to reach their ambitious 2030 carbon emission reduction goal.

Scope 3 represents 99.2% of the total GHG emissions of Vestas

Vestas' scope 3 emissions related to their supply chain represented the vast majority of their total GHG emissions. Even though these emissions are not in the direct control of the company, Vestas set an ambitious goal to reduce its intensity by 45% by 2030. In a first phase, Vestas plans to engage with 50 of their strategic suppliers that represent about 45% of their total material spend. Vestas asked them to 1) commit to 100% renewable electricity sourcing, 2) to set targets for reducing scope 1 and 2 emissions and to 3) measure the production waste for products delivered to Vestas. In 2022, the suppliers will also be expected to 4) set targets for reducing their scope 3 emissions and waste. To aid this effort, Vestas also builds a new software to help suppliers accurately calculate and report their emissions. Additionally, Vestas also tries to reduce its scope 3 emissions through strategic investments in sustainable technologies, including wooden wind turbine towers and more energy efficient cranes. Moving forward, Vestas also plans to reduce the carbon intensity of the steel components they use as a key element of achieving their scope 3 emission intensity reduction goal.

Vestas is expected to strongly benefit from increased wind power installation demand

Vestas is expected to be one of the strongest beneficiaries of governments placing more emphasis on environmentally friendly production of power. Wind energy has low lifecycle emissions and it is already one of the cheapest power generation methods available, according to the International Renewable Energy Agency. Bloomberg New Energy Finance forecasts average annual 816GW of wind power installations in its Green Scenario until 2050 compared to 83GW installed in 2020.

Lifecycle GHG emissions are one of the lowest for wind power generation

Global average lifecycle GHG emissions by power generation technologies (gCO2e/kWh)

Coal	1019	Solar	66	Only below the 100g CO2e/Kwh power generation technologies are considered to contribute to a net zero economy by 2050 by the EU Taxonomy
Gas	594	Nuclear	18	
Gas – CCGT	463	Offshore wind	17	
Hydro	107	Onshore wind	15	

Source: UBS, Bank J. Safra Sarasin, 7.12.2021

Vestas' wind turbines helped to avoid 186mn CO_2e emissions

Vestas' total aggregated installed fleet of wind turbines helped to avoid 186mn tons of CO_2e emissions in 2020 compared to the average (485g CO_2e/kWh) CO_2 footprint of the global electricity generation mix. This is equivalent to avoiding emissions from the electricity use of 31 million homes.

Strong emphasis on end-of-life recycling of wind turbines

Vestas also places large emphasis on the end-of-life recycling of their wind turbines to lower waste generation and to reuse raw materials. It is relatively more difficult to recycle wind blades and hubs due to composite materials used. However, Vestas has recently increased the recycling target for these components to 100% by 2030 from 55% targeted earlier and 41% level achieved in 2020.

Our Global Climate 2035 investment strategy is well positioned to benefit from climate change related opportunities

Our Global Climate 2035 investment strategy is well positioned to benefit from the increased global efforts to cut greenhouse gas emissions through our holdings in wind turbine manufacturer Vestas or in electric vehicle wiring producer Aptiv. We incorporate a proprietary tool to our investment process to better understand how climate change affects companies. This Climate Engine tool identifies the future global warming pathway and the green revenue exposure of about 8,000 companies. Two third of our current holdings have already made carbon neutrality or net zero emission pledges.

Barbara Janosi
Portfolio Manager/Analyst Core Equities

The Regulation encourage to find synergies between all sectors to reach a net zero world

Neste Oyj - A leader in biofuel production

The energy sector is under the spotlight with many institutions deciding to withdraw their capital from the fossil fuel industries. Energy producers' players are questioning the sustainability of their business model and are adapting accordingly by offering alternative fuels or strengthening their position in hydrogen or renewable energy. Neste is a leader in producing renewable diesel and has the largest renewable diesel refinery in the world. The company uses ten different renewable raw materials to produce renewable transportation and aviation fuels, as well as feedstock for the production of renewable polymers and chemicals. Neste has announced its intention to be carbon neutral in its operations by 2035. For raw materials like palm oil, Neste focuses on waste and residue raw materials and works towards increasing their share from the current 80% to 100% of all renewable raw material inputs by 2025. Palm oil is 100% certified and presents less than 20% of the company's raw material input. Today we consider that 16% of their revenues are Taxonomy aligned.

Encavis AG – A key enabler of a sustainable energy future

Encavis' core business is the acquisition and operation of solar parks and onshore wind parks. The goal of Encavis' core activities is to save carbon in the generation of electricity. The company plans to increase its renewable energy capacity from 1.7gigawatt (GW) to 3.4 GW by the end of 2025, in line with the increasing demand for alternative electricity. The company will benefit from its strategic position, and from European regulations encouraging the convergence of capitals into sustainable activities. All new projects and acquisitions are subject to thorough reviews in line with European Economic Area standards. This means that environmental considerations for the preservation of biodiversity and the impact on the local population are studied before the implementation of a new project in line with the DNSH principle statement of the EU action Plan. Our internal temperature model positions the company below the 2°C framework of Paris Agreement. We believe that given the nature of its core business, Encavis is less exposed in term of climate related risk such as transition risk, potential cost from liabilities and future potential decarbonisation efforts.

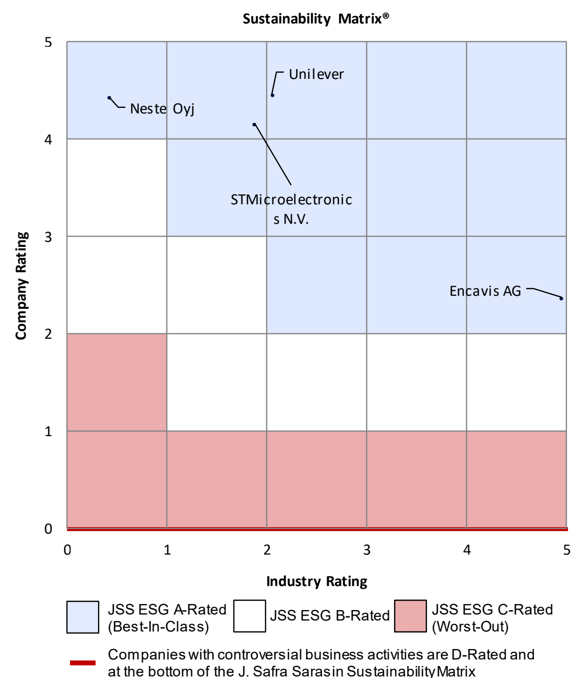
STMicroelectronics N.V – Developing Smart Mobility solutions

STMicroelectronics (STM) provides innovative products and solutions that serve the key trends in the automotive market – vehicle digitalization and electrification. Through its Silicon Carbide solution, STM enables its customers to create electric vehicle with better autonomy, faster charge, lower weight and a better energy efficiency. The company also offer a new battery management product that increases the reliability, safety, driving range, and cost-effectiveness of EVs. The company deploys strong programs to reduce their direct and indirect carbon emissions from all their operations. They reduce, reuse, recycle or recover as much of their waste as possible, rather than sending it to incineration or landfill, with 88% of waste reused, recovered or recycled. STM scores especially well on the carbon emission key issue in our J. Safra Sarasin Sustainability Matrix, due to comprehensive disclosure, an extensive climate strategy and credible targets. The company is part of the CDP initiative (A-rated) and plans to use 100% of renewable energy by 2027. STM is also actively participating in industry initiatives for action on climate change.

Unilever – Influence their suppliers to reach their climate reduction targets

Unilever PLC is a fast-moving consumer goods (FMCG) company. They announced an ambitious climate plan, intending to achieve net zero carbon emissions from all our products, from sourcing to point of sale, by 2039. Unilever was the first company of its size to put its climate plan before a shareholder vote. Unilever pledged to have a deforestation free supply chain by 2023 and make all the product formulations biodegradable by 2023. The company is constantly decreasing its carbon emission since 2008 on scope 1 & 2. Our internal temperature model put them below on a 1.5°C scenario. We identify 12 green patents that can help the company benefit from sustainable trend that will emerge in this industry.

Sarasin Sustainability-Matrix®



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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 to individual companies, 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 governance reputational risk data on behalf of the Sustainable Investment Research Department.

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