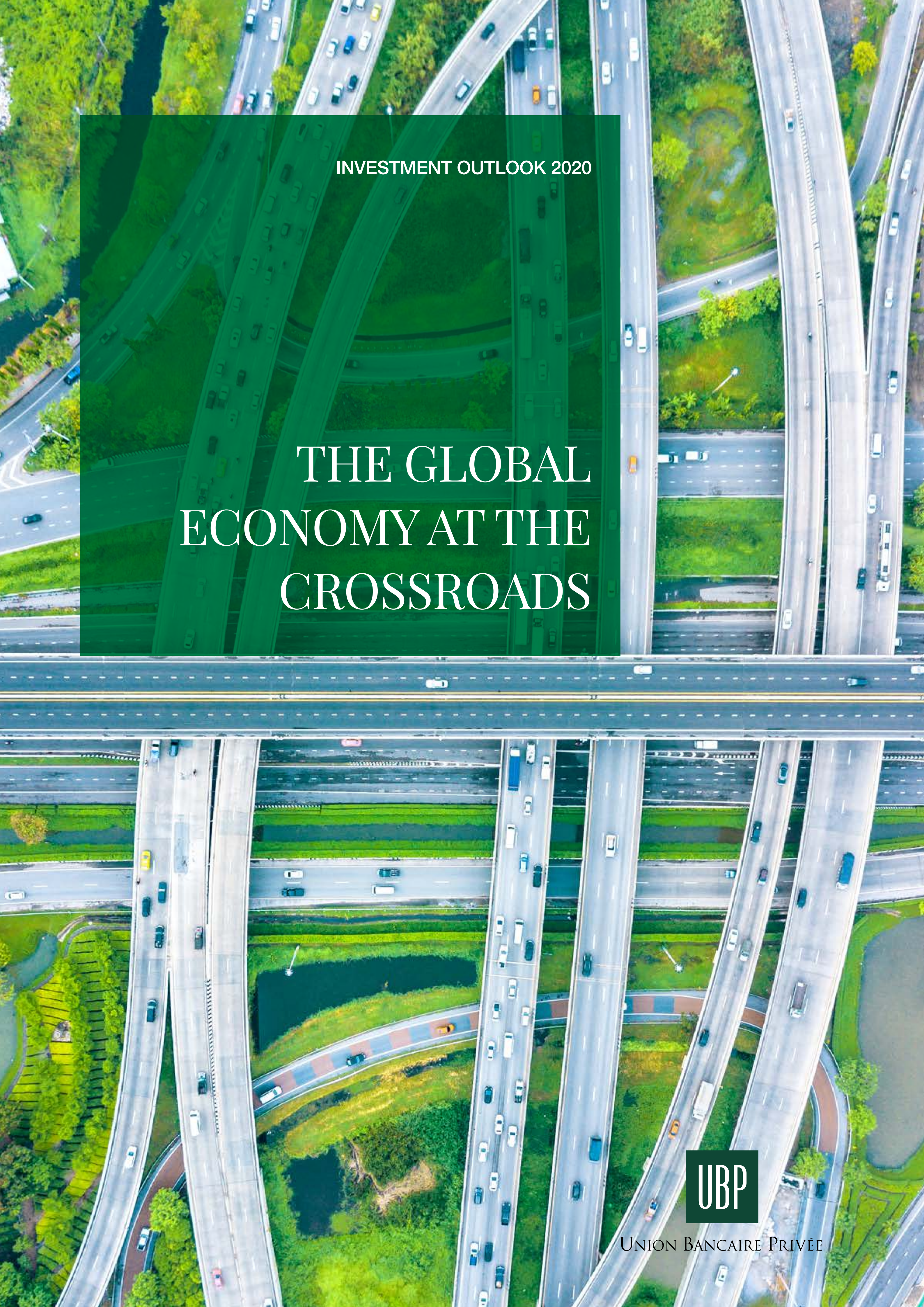


INVESTMENT OUTLOOK 2020

THE GLOBAL ECONOMY AT THE CROSSROADS

UBP

UNION BANCAIRE PRIVÉE

RESPONSIBLE INVESTMENT

GROWING MOMENTUM BEHIND ESG INVESTING

Companies employing sound ESG practices are not only better equipped to face future challenges, but are in fact also financial high achievers. Also, ESG investing offers a way to adopt an investment approach tailored to each individual's values.

Sustainably invested assets continue to grow around the world, not only because of increasing investor interest in corporate responsibility regarding environmental, social, and governance (ESG) issues, but also as investors recognise that companies employing sound ESG practices are better positioned to deal with future challenges in a rapidly changing global landscape.

Indeed, with governments across most major regions increasing their regulatory focus on sustainability issues, companies lagging behind in the ESG race will find that they are not only at odds with the concerns of investors and society in general across the globe, but increasingly non-compliant with a growing set of regulations.

Though some may view this as simply an increasing burden on companies, the *Journal of Sustainable Finance and Investment* highlights that, since the 1970s, companies that score high ESG ratings are also financial high achievers[1]. As such, an individual company proactively engaging with issues such as climate change, pollution and emissions, workplace safety and labour standards, and board independence, increases not only its regulatory compliance and contribution to society but, just as importantly for investors, its ability to create long-term economic value by comparison with its peers.

Responsible investing can also be used to identify new investment opportunities at a time of accelerating global change.

Electric vehicles, sustainable farming and financial services in developing countries are just a few examples of large industries that owe their success in part to businesses' efforts to contribute more to sustainability.

ESG allows investors to customise their investment approach to align it with their personal values

For investors, the benefits go beyond the economic value generated. With the quantity and quality of sustainability data growing exponentially, investors can increasingly customise their investment approach to align it with their personal values. For example, they may seek to focus on companies that are strong on green energy or human rights, or exclude weapons manufacturers or polluters from their investment portfolios.

ESG matters are likely to be of increasing interest to investors, and will pose growing issues for them, in the years ahead. Accordingly, by choosing a sustainable approach, investors can manage those challenges while tailoring their investments to their own values.

[1]Gunnar Friede, Timo Busch & Alexander Bassen (2015), 'ESG and financial performance: aggregated evidence from more than 2000 empirical studies'

RESPONSIBLE INVESTMENT

THE GLOBALISATION OF IMPACT INVESTING

Impact investing offers a way to tap into secular growth trends while also producing a non-financial, societal "dividend". Its spread into emerging markets gives investors a broader opportunity to make an impact.

The Global Impact Investing Network estimates that there are now over half a trillion dollars' worth of assets managed under impact mandates. This number has risen sharply over the last few years, and although listed equities are a tiny proportion of that total, they are a meaningful part of the growth and reflect growing demand across asset classes for investments that deliver value in a broader sense, not just financial.

Impact investing in listed equities offers investors a way to find companies with superior growth prospects by identifying businesses focused on addressing the world's most pressing challenges. Those companies tap into secular growth trends while, at the same time, producing a non-financial, societal "dividend".

The problems addressed by the UN's Sustainable Development Goals (SDGs) are far-reaching and complex, and require a considered and holistic response. Corporate disclosure continues to be a challenge, and an absence of disclosure is still conflated with an absence of positive action. For that reason, a successful impact investing approach requires an in-depth understanding of what individual companies do for their customers and society as a whole.

Beyond this, impact investors must acknowledge the complexity involved in assessing impact, as well as the differences between high- and low-income countries. For example, in developed markets, carbon neutrality can be established as a minimum threshold for investing in a project that does not directly target climate issues. In other words, in high-income countries, multiple impact objectives can be targeted simultaneously to achieve the social 'dividend' component for investors.

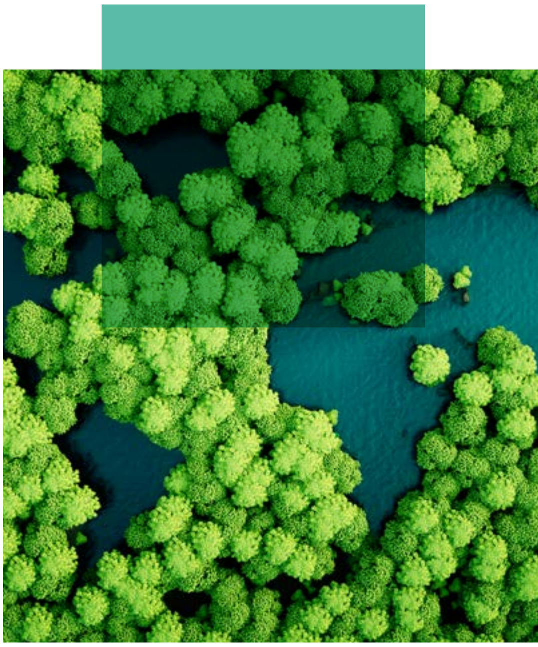
Look for the benefits of impact investing to spread into emerging markets

In contrast, when assessing impact in emerging markets, more flexibility is required. Companies aiming to reduce poverty and boost economic growth in some emerging markets (e.g. rural India, Indonesia or South Africa) may be less able to simultaneously target reduced carbon emissions, instead seeking to achieve a narrower development goal. Although this results in a lower social 'dividend' hurdle in emerging markets, the trade-off appears fair given that high-income countries represent only 16% of the world population but 46% of global CO_2 emissions.

Indeed, for investors wanting their investment portfolios to tackle global problems directly, emerging markets offer fertile ground. Compared with the rest of the world, they offer much greater potential for improvement in pursuit of many of the SDGs. Moreover, engagement with companies is a critical part of what impact investing is all about, and there are opportunities to build a constructive dialogue with companies in smaller emerging markets.

Governance standards vary and not every company will listen, of course. But impact investors have a greater chance of moving the needle in places where regulatory standards are generally lower but the appetite for change is quite often higher.

For those reasons, impact investors are expected to become increasingly active across emerging as well as developed markets in the years ahead.



MICHAËL LOK

Group CIO and Co-CEO Asset Management

Michaël Lok, who has over twenty years of experience in wealth and asset management, joined UBP in 2015 as Head of Investment Management. Previously, he was Global Head of Asset Management with Indosuez Wealth Management (Crédit Agricole Group), where he developed a range of UCITS funds for Private Banking and a set of UHNWI mandates and dedicated investment solutions with a focus on Asia and Latin America. This followed his roles as Head of Investment and Head of Risk and Quantitative Portfolio Management. Before that, he was Portfolio Manager at Banque Martin Maurel and HSBC France (ex-CCF). Michaël Lok holds two Master's degrees, one in Finance (DESS) and one in Banking and Finance (DEA), from the University of Aix-en-Provence.

NORMAN VILLAMIN

Chief Investment Officer (CIO) Wealth Management

Norman Villamin joined UBP in November 2015 as Head of Investment Services and Treasury & Trading of UBP Zurich. He was appointed Chief Investment Officer Wealth Management in 2016. With over twenty years of experience managing wealth both on an advisory and discretionary basis, Norman Villamin has been Chief Investment Officer for Coutts International, Head of Investment Analysis & Advice for Citi Private Bank in Asia-Pacific as well as the Head of Asia-Pacific Research for HSBC and the Head of Asia-Pacific Strategy for Morgan Stanley based in Hong Kong and Singapore. Norman Villamin holds a Bachelor's degree in Business Administration from the University of Michigan and a Master's in Business Administration from the University of Chicago.

PATRICE GAUTRY

Chief Economist

Patrice Gautry joined UBP in Geneva in February 2000 and heads the Bank's Economic and Thematic Research department. Prior to that, from 1991 to 1999, he worked in the Institutional Asset Management department of HSBC Group in Paris as head of economics and investment strategy. From 1988 to 1991, he was a manager of European diversified SICAV and mutual fund portfolios for the Ecofi-Finance Group. Patrice Gautry holds a Research Master's degree (Diplôme d'Etudes Approfondies) in economics from the HEC-CESA Paris and the University of Orléans, with specialisations in currency, finance and banking.

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