J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

Sustainable Investments

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Editorial

A Sustainable Path Out of the Corona Crisis

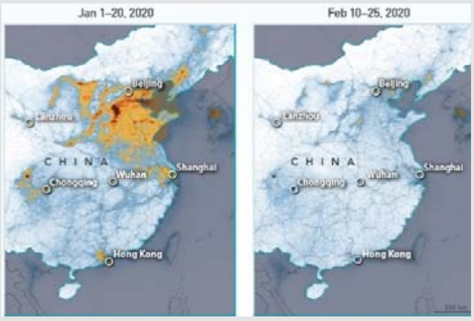
Dear Reader

The Corona crisis has made us aware in a dramatic way how vulnerable our health, our lifestyle, our economy and our society are. The World Economic Forum speaks of a *big reset* triggered by this crisis. Many aspects of our lives and the way we do business will have to change fundamentally. The disruptions that the Corona crisis has brought with it have fundamentally changed the traditional context for decision making. In the midst of the debris and dust of this crisis, it is necessary to take a step back and reflect on these massive changes ahead. In the foreground are the questions of how the Corona virus has come about in the first place, what needs to change and what needs to be done now.

How could it all come to this?

The shock was sudden, but not entirely unexpected. For decades we have known about viruses that spread from animals to humans. This danger is greatest where humans and animals live closely together. The connection between the advance of humans into the realms of wild animals and the ensuing decline in biodiversity and the rising vulnerability to new diseases is well documented. Our hyper-globalised world has then spread the virus over all continents until the global lockdown managed to slow it. The only positive aspect of the lockdown was the visible and significant reduction in greenhouse gas emissions in many regions of the world.

China: reduction of Greenhouse-Gas emissions



Source: NASA Earth Observatory

What will and what has to change?

A boundless *boom* in global trade over the last decades was followed by a deep *bust* with the interruption of highly fragile supply chains. As a consequence, we became suddenly aware under which hazardous conditions migrant workers in agriculture and slaughterhouses work for our daily food supply. The inadequacies and lack of focus of our health and education systems became obvious as well. All this will have to change after the crisis. The world is at a historic junction in improving global relations, rethinking the direction of economies and focusing society's priorities on the common good and the dignity of each individual.

What do we have to do now?

Kristalina Georgieva, Managing Director of the International Monetary Fund says, that "the best memorial we can build for those who lost their lives in the pandemic is that greener, smarter, fairer world." There is now a unique opportunity to learn from the acute crisis of the virus for the latent crises such as climate change, the refugee crisis and the decline in biodiversity. The climate curve must also be flattened, just as we have managed to flatten the infection curve. To this end, massive government spending on crisis management should be used to bring about a *green* or sustainable economic upswing. In this quarterly newsletter, we would like to give you an overview of why sustainable companies were better able to cope with the crisis, what awaits us in the world after COVID-19 and what lessons we can learn for the future.

Warm wishes,

Jan Amrit Poser

Chief Strategist and Head Sustainability

A joint vision from the Sustainable Investment Research team

Sustainable Development in a Post-COVID-World

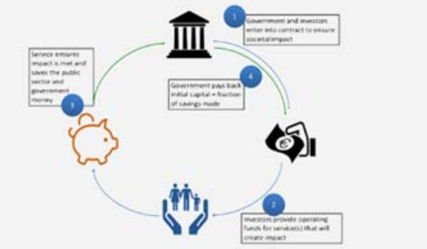
The Corona Crisis has devastated livelihoods and the economy. However, in every crisis, there is an opportunity. Governments, companies, consumers and indeed human kind can heed the lessons of the crisis to build a sustainable future. Some positive trends are already emerging amidst of the dust and rubble. Our Sustainable Investment Research team gives insights into what we can expect after the crisis and how this will foster sustainable development in the years to come.

Julia Wittenburg

"Shifting the S in ESG into focus, the COVID-19 pandemic is opening up opportunities for financial innovations. Social bonds are benefiting"

Social bonds seek to mobilize private capital for the common good, with proceeds used exclusively for social causes. In 2017 the International Capital Market Association first set the principles that regulate the issuance of bonds targeting social impact projects, most often mapped to the UN's Sustainable Development Goals (SDGs).

Social Impact Bonds Model



Source: Health Impact Bonds, www.healthmovement.eu

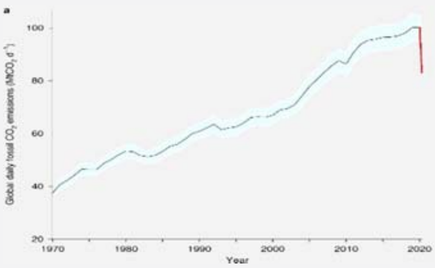
Compared to the growth that the green and climate bond market experienced since the European Investment Bank issued the first green bond in 2007, social bond issuances have been lagging behind, representing only 5% of the market. The pandemic has now set the stage for an expected doubling in social bond issuances for 2020, having reached 70% of 2019 issuances year-to-date. These proceeds are used to speed up the economic recovery by supporting small businesses, investing into struggling healthcare systems and vaccine development. As the frequency of pandemics is expected to rise, social bonds are likely here to stay which represents yet another milestone of how ESG-related investment products are turning mainstream.

Robin Rouger

"COVID-19 is likely to accelerate the energy transition"

In its 2019 risk report, the World Economic Forum, had identified a pandemic as a highly probable element with strong economic consequences. Given that the same organization classifies the impact of global warming as much more harmful, we should probably pay more attention to their warnings and reflect on how to rethink the Energy sector.

A sharp drop in global CO_2 emissions



Source: www.nature.com/articles

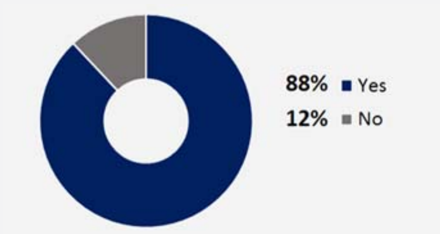
The Corona crisis has led to an unprecedented drop in greenhouse gas emissions. As economic activity collapsed, so have oil prices. In the short-term, cheap oil will not encourage investments in renewable energies. Nevertheless, this crisis serves as a wake-up to the sector as demand for fossil fuels is unlikely to recover fast. Moreover, demand will shift from combustible fuels to electricity, as consumers avoid traveling and home office and technological applications become more entrenched. Moreover, government incentives for electric cars have been increased. As utility scale wind and solar farms have already reached "grid parity", implying that the can be produced cheaper than any other form of energy production, the ramp up in renewable energies is likely to accelerate long-term, helping the decarbonisation of the sector.

Sebastian Wiesel

"Remote working will be the new normal, even after COVID-19. That is good news for the environment."

Social distancing has prompted organisations to embrace remote working at an unprecedented scale. Polling nearly 3'000 people around the world, the research firms Iometrics, Global Workplace Analytics, and Workplace Evolutionaries found that roughly 9 out of 10 office workers have been regularly working from home during the pandemic.

Have you been regularly working from home during the pandemic?



Source: Global Work-from-Home Survey 2020

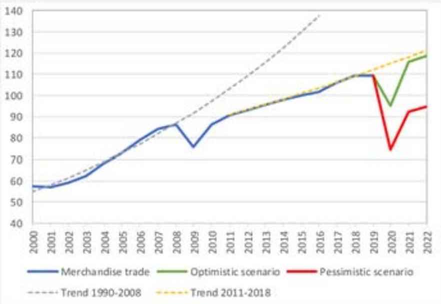
This shift to virtual offices has eliminated many daily commutes, which has reduced air pollution. A study in the journal Nature Climate Change found that during the peak of the lockdowns in April daily emissions from cars and buses were down by 36 percent worldwide. Social media has featured many photos showing blue skies and clear views into the distance. Chances are good that the virtual shift will be lasting. Facebook said half of its workforce will do their jobs remotely over the next five to ten years. Insurer Nationwide, a Fortune 500 company, is encouraging its employees to work from home permanently and plans to shrink its number of offices from 20 pre-pandemic to just four. Barclay's Jess Staley was quoted as saying: "a big city office may be a thing of the past."

Andrea Weber

“Global supply chains will be re-engineered after COVID-19”

The ongoing pandemic has hit global trade at an unprecedented speed and scale. The virus has also exposed the fragility of modern supply chains. This is no surprise as even before, environmental considerations, labour practices and economic protectionism were subject to trade-related discussions.

World trade volumes, 2000-2022



Sources: WTO Secretariat, 2020

We are currently experiencing the limits of lean manufacturing principles driven by cost control and single sourcing models. This was especially visible in the healthcare sector and the hunt for protective gear. However, the solution is not necessarily to build up massive inventory or only source locally.

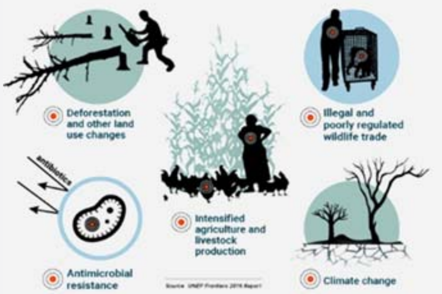
The same is true for environmental considerations in trade. Contrary to popular beliefs, “closer” does not always mean “greener”. Honest carbon accounting is needed to make informed decisions in the future. Distance is not always a determining carbon factor (especially not for food products). Production technologies including the use of electricity or fertilizers make the difference. Therefore reversing globalization is not a promising solution. Companies should rather focus on building diverse, environmental-friendly, fair and digitalized supply chains in order to ensure enhanced resilience in the future. Our sustainable investment company analysis focuses on ensuring supply chain preparedness requirements and we will discuss with management of our investee companies the measures taken to deal with future supply and demand shocks.

Nico Frey

“At last, taking care of (bio-)diversity will be key to mitigate the risk of large scale shocks such as the Corona Crisis”

The economy, society, nature and even the human body have one thing in common. They are all complex and highly connected systems with many subsystems. The COVID-19 pandemic has demonstrated how fragile and interconnected these complex systems really are. 75% of all emerging infectious diseases are caused by pathogens originating from animals. These so called zoonoses like Ebola, bird flu, MERS, SARS, Zika and also Corona are all linked to human activities such as land use changes, extensive livestock rearing, agricultural expansion, wildlife trafficking, climate change and nature degradation in general.

Factors increasing diseases transmitted from animals



Sources: UNEP, 2020

Global wildlife populations have declined on average by 60% over the past 40 years. By degrading biodiversity, humans are weakening the key defense mechanism of one of the most relevant and basic systems our economy depends on: nature.

COVID-19 puts this already known problem further up on the political agenda around the world. Markets will face the double burden of more severe shocks in the long run and higher costs due to additional ecological regulations in the short to mid-term. As with climate change and COVID-19: the earlier the measures are being taken, the lower the costs will be.

Sasha Cisar

“Future shocks are inevitable; hence we need to address the resilience of our social systems and real assets.”

Resilience is the capacity of systems to survive and thrive despite different stressors, may they be social or ecological. The built environment presents the space where different systems interact and the fallout of crises visibly manifest themselves. The COVID-19 pandemic and resulting government measures brought the world to a grinding halt in order to curb the outbreak.

Mobility trends in France, May 22nd 2020

Sources: Google, OurWorldInData, 2020

In consequence, significant changes in mobility occurred. Many communities responded by staying at home, decreasing commutes to work, trips for shopping and recreation. What strongly increased, were visits to parks, open and public spaces. Generally, we did not design our cities and urban environments for pandemics. However, the diversity of uses and spaces in cities allow to a degree maintaining their functioning despite dramatic and sudden changes such as crises.

On an asset level, the crisis proves the importance of a positive and collaborative relationship between investor and tenant, a recent bulletin by the UNEP Fi Property Working Group concluded. This entails a stakeholder exchange and contact to tenants, strategies for mitigating the economic fallout for tenants and maintaining their wellbeing.

In the future, real asset owners and institutional investors are likely to positively contribute to both needs from society and tenants to increase their shared resilience.

Engagement: COVID-19 shifts the focus

Engagement is aimed at elevating the importance of sustainability issues at companies, and where possible, at getting Board-level attention focused on them. With companies rightly focused on the immediate corona crisis, it is difficult to get Boards to spend time on sustainability topics. We are mindful that priorities have changed, but we will also need to ensure that sustainability issues are not forgotten, and that companies continue to make progress where they can. Even in a time of short-term crisis, we need to keep our eyes on the long-term investment horizon.

Short-term decisions are always short-term.
With the disruption caused by the COVID-19 crisis, "social" considerations are back at the forefront of ESG. While corporates work to navigate near-term challenges, it is important to keep in mind that decisions affecting a company's human capital, customers, and the communities in which it operates can have lasting implications, both positive and negative. These factors can be linked to long-term performance and returns. Short-term decisions made during the COVID-19 crisis around human capital, customers, and society as a whole can have reverberating impacts. Decisions around workforce management will vary materially across sectors and are likely to be dictated by a range of factors, including changes in product demand, government-mandated shutdowns, liquidity, type of workforce (e.g., hourly vs. salaried), and employees' ability to work remotely. And the level of fiscal policy support will also be a driving factor. We should remain wary of the long-term implications that human capital decisions can have on employee satisfaction and corporate culture. Separately, companies' treatment of customers and their efforts to provide aid and solutions around COVID-19 could be an important driver of brand equity and improved customer relationships over time.

It takes many good deeds to build a good reputation
A 2017 study by the Optimy, a consultancy in corporate sustainability, suggests that 60% of customers are willing to pay more for products from companies with reputable brands and good values, and 71% of millennials would choose to work for a company that has demonstrated a strong commitment to its community. As the saying goes, "it takes many good deeds to build a good reputation, and only one bad one to lose it." We will see greater focus on how companies treat their customers, many of whom may be under material financial stress, and also on the steps companies are taking to help society through this unprecedented situation. Both of these actions could go a long way in positively or negatively affecting a company's reputation in the eyes of its various stakeholders. Companies that successfully adapt in a dynamically changing environment, while operating in ways that maximize the benefit (or minimize the disruption) for all of their stakeholders, could realize long-term competitive advantages.

Why sustainable investing matters

Source: "The Millenial Investor", Julian Seelan, Investments & Wealth Monitor, April 2019, SRI = Socially Responsible Investments

Questions that must be answered
We highlight questions to consider for engagement with companies around the impacts on human capital, customers, and the communities in which they operate:

- What efforts are being taken to support employees during the COVID-19 crisis?
- What are the near-term cost implications of human capital decisions being made?
- Are there union or contractual obligations that may impact the decisions made around human capital management?
- If employees have been temporarily furloughed, have they been given transparency around the length of leave? What benefits and support are available to them during their furlough?
- What efforts are being taken to ensure that employees remain engaged? If working conditions have changed, what steps have been taken to ensure employees can remain productive and efficient?
- Have there been changes made at the C-suite level (e.g., salary cuts) as a result of disruption caused by COVID-19?
- If demand snaps back, how quickly can the workforce be re-staffed?
- What actions has the company taken to support customers who may be facing financial challenges as a result of the COVID-19 disruption?
- How will the various government policy measures impact the company?
- Has the company made any extraordinary efforts in providing additional support to the community during the crisis?

We have a choice!
The coronavirus pandemic is an unprecedented global crisis. The human, economic and financial impacts have already been huge, and it is not yet clear how quickly the virus will be brought under control in order for normal economic activity to resume. At a macroeconomic level, the International Energy Agency have warned that the slowdown is likely to stop many government-funded green projects, as governments urgently divert resources to keeping businesses and individuals afloat. The more significant point in relation to climate change is the impact of COVID-19 on the practical preparations and political momentum ahead of the critical climate conference in Glasgow (COP26). We still have a choice to make this work.

Sasja Beslik
Head of Sustainable
Finance Development

What the Corona Crisis has taught us

"Flattening the curve" and thus slowing down the exponential rise of COVID-19 infections was the top priority in the pandemic. Even after the crisis is over, it will be a question of "flattening the curve!" This time it is the curve of CO_2 emissions and global warming that is already causing a considerable number of deaths every year due to increasing storms, wild fires and famines, and is set to cause even more threatening damage in the future. This is why we have to draw the right conclusions from the crisis.

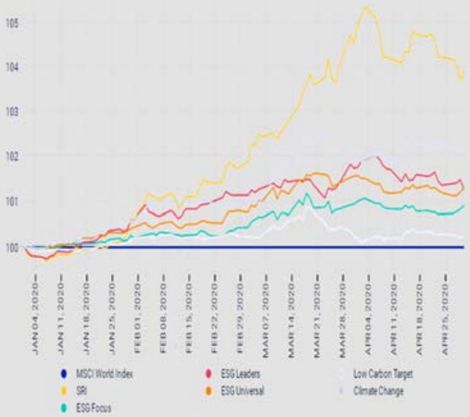
A green, sustainable upswing is needed

In order to alleviate the damage caused by the economic shutdown in the wake of the Corona crisis, considerable sums of state funds were made available. Some of this money is intended to cushion short-term wage losses, but a large part is credit assistance for companies or incentives for investment. The Corona crisis has clearly emphasised the necessary reorientation of the global economy. Entire industries face a completely new environment. Air traffic is being massively reduced. With less air traffic there is less tourism and business travel. Hotel chains and cruise ships will face a considerable headwind. Less kerosene consumption will lead to lower oil prices. Fossil fuel producers with higher costs, who develop shale gas, tar sands, arctic oil or deep-sea deposits, have no commercial future. They stand in the way of the necessary decarbonisation of the economy anyway. Harmful emissions will be increasingly in the focus of regulators after the Corona crisis, because one lesson is that lung damage increases susceptibility to COVID-19. The tobacco industry will therefore also remain under pressure. The state must be careful not to unnecessarily prolong the lives of companies that are not viable anymore at the expense of taxpayers. Scrapping premiums for internal combustion engines are also counterproductive. There is no way around it to shape the next upswing in such a way that the global community becomes more resilient and is better able to cope with future crises.

Advantages for sustainable business models

On the other hand, the crisis has shown that sustainable business models are all-weather-proof in crises. There are enormous opportunities opening up. A comprehensive health care system, sufficient diagnostics, vaccines and remedies are the factors that make societies more resilient. Politicians should clearly set priorities in this area. Companies that provide technologies for home offices and online communication should be better positioned for the future. Smartphone apps, streaming services and Internet portals are instruments for the digital, low-carbon future. In the future, people will consume differently, much more responsibly. The state should provide the physical and digital infrastructure for all these growing economic sectors to ensure a sustainable upswing.

ESG indices have held up well



Source: MSCI, data as of 30 April 2020

Ten lessons of the Corona Crisis for addressing climate change

Beyond the horror of COVID-19 and the resulting economic crisis, there is hope. It teaches humanity important lessons that will provide a template for the fight against climate change and other major challenges.

<u>1) Global crisis demands a global solution!</u>

The pandemic has reminded us that the threats to humanity are becoming increasingly global. This favours and fosters multilateralism and global cooperation on major challenges.

<u>2) Listen to the scientists!</u>

Sober scientific analysis has helped to make the right decisions to alleviate the crisis. Fake news have spread like viruses, but ultimately had to bow to the scientifically-proven reality. This raises the hope that science is likely to prevail in the debate on climate change.

<u>3) Act quickly and swiftly!</u>

Any delay of action is not only more costly, but leads to an exponential increase in fatalities.

<u>4) Individual behaviour counts!</u>

If you do not protect yourself and others personally, the virus will spread like wildfire. If you do not personally reduce carbon emissions, real wildfires will spread as the planet heats up.

<u>5) Qualitative growth is the goal!</u>

The Corona crisis was not about GDP, but about a higher good - the well-being of our loved-ones and the elderly. 6) Massive measures are possible! Governments were prepared to "do whatever it takes". The climate requires similarly bold steps. Now we know that this is possible.

<u>7) Solidarity is a key factor!</u>

Countries that lack social cohesion because they have more inequality or are segregated by ethnicity will have more trouble after the crisis. The crisis has brought up the finest trait of human beings: solidarity.

<u>8) Systemically relevant with new meaning</u>

Cashiers, truck drivers, nurses and educators are the real heroes of everyday life now. We have understood that we have to take better care of our care-takers.

<u>9) Authoritarianism is not superior!</u>

It was liberal democracies who, through public appeals, persuaded their people to obey the rules.

<u>10) We can do it!</u>

Faced with a great threat, policy-makers can act jointly, globally and swiftly, following science by deploying massive but necessary resources and promoting the contribution of each individual in a spirit of solidarity with others, in order to preserve the basis of life for present and future generations. It is high time!

Sustainability rating updates: companies that took action during the Corona Crisis

Partnership for a WHO-aligned vaccine

Health Care companies are literally in the eye of the COVID-19 storm. The world is waiting impatiently for new medication and vaccine against COVID-19. One of the top players in this field is Bavarian Nordic, a Denmark-based biotech company. Focusing on infectious diseases and cancer, nearly all of its revenues are aligned with the Sustainable Development Goals (SDG). It has a solid ESG rating with relative strengths in the key issues Access to Healthcare, Board Structure and Ownership & Control. Bavarian Nordic signed an exclusive agreement with AdaptVac to develop, test and market a potential vaccine for COVID-19. AdaptVac received an EU Horizon grant earlier this year to rapidly advance its vaccine candidate into the clinic. The vaccine would meet the WHO's criteria: a) suitable for all ages, b) single shot, c) prevention of infection with SARS-CoV-2 and d) rapid onset of protection (<2 weeks).

Neste joins EU Alliance for Green Recovery

The corona virus has hit the energy sector hard with a drastic drop in demand and falling prices. Neste is the largest supplier of renewable biodiesel globally. The company is a consistent ESG leader in the energy sector. Neste has now joined the European Alliance for a Green Recovery, a cross-party body of political decision-makers, businesses, NGOs and other stakeholders. Its ambitious aim o is to accelerate the energy transition in order to avoid the risks of global warming by making greenhouse gas reductions the engine of Europe's economic recovery. The alliance strives to create a new ecosystem with new jobs and growth in alternative energy.

LVMH: taking action on COVID-19

In recent months, LVMH used its global presence to help battle the spread of the virus. The company not only enforced strong internal health & safety standards, but was among the very first to alleviate the risk of shortages of hand sanitizer gel by mobilising production facilities of its perfume & cosmetics brands area such as Guerlain, Christian Dior, Givenchy and Bvlgari. Currently, around 50-60 tons of gel are being produced on a weekly basis. Other initiatives such as the import of facemasks, purchase of respirators and provision of serology tests as well as hospital gowns complement LVMHs efforts that were coordinated with local authorities and support groups. Some parts of the supply chain have been heavily disrupted, but LVMH's Code of Conduct ensured best efforts to treat suppliers fairly e.g. by accelerating outstanding payments and helping them implement sanitary measures. All executive board members give up their April/May salaries and the entire 2020 variable remuneration. The company has been a leader in the crisis.

Bankinter – ensuring access to finance

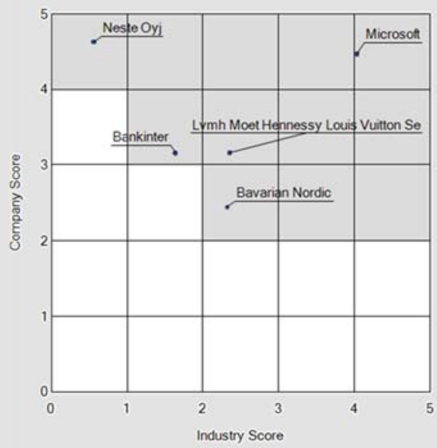
In contrast to their instigating role of the 2008 financial crisis, banks are considered an integral part of the solution in the crisis management of the COVID-19 pandemic. Bankinter, the Spanish commercial bank created in 1965 pursuant a joint venture between Santander and Bank of America, has responded to the COVID-19 pandemic in just that form. Investing in its customer experience, Bankinter announced the launch of new online services that help customers to better access and manage their finances across different accounts and banks. Other actions implemented as a result of the crisis include extending loans to small enterprises in its home market, foregoing credit card fees and interest for healthcare workers for 2020, providing payment breaks on consumer loans for financially vulnerable customers, deferrals of principal repayments on household mortgages and facilitating pension pay-outs and temporary unemployment benefits. These actions in turn impact the key Access to Finance indicator in the ESG analyses of banks.

Microsoft - ahead of the pack

Microsoft has set the tone for best in class reaction to COVID-19 in the US Technology sector. The software giant was one of the first major employers to insist that workers work from home. When the company realized the repercussions of that decision for employees like cooks, shuttle drivers or facility workers with jobs that aren't possible to perform remotely, they made the decision to award all such workers their regular wages. According to TechCrunch Reporting, Microsoft was ahead of the pack again, prompting Facebook, Google, Twitter and Amazon to follow suit a day later. One case where peers have not followed Microsoft's example yet is the topic of data privacy. The company has proactively raised this issue of preserving privacy while tracking the spread of COVID-19 and is calling for a strong federal privacy law.

Our Sustainability assessment incorporates the company's strong and credible stance on this topic in a dedicated Privacy & Data Security score. Microsoft ranks 1st out of 100 comparable IT companies on this metric, which is a major contributor to the company's overall top sustainability score.

Sarasin Sustainability-Matrix®



Sustainable Investment Universe

Source: Bank J. Safra Sarasin, Information on companies is shown for illustrative purposes only and does not constitute an offer, solicitation or recommendation to buy, hold or sell investments and does not consider the circumstances of any individual investor. The information shown may change without notice.

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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Bank J. Safra Sarasin Ltd
Elisabethenstrasse 62
P.O. Box
CH - 4002 Basel
Tel + 41 (0)58 317 44 44
Fax + 41 (0)58 317 44 00