J. SAFRA SARASIN
Sustainable Swiss Private Banking since 1841

Sustainable Investments

Quarterly Newsletter of J. Safra Sarasin Asset Management | Jubilee Edition 2019

Editorial

J. Safra Sarasin celebrates 30 years of sustainable investing

Dear Reader

I am often asked if it is really true that the Bank took up the theme of sustainability 30 years ago, long before it became a major trend. I usually answer that the journey actually started much earlier. Apart from the fact that our Bank was founded back in 1841 and its track record since then demonstrates in itself our solid financial sustainability, we first focused on environmental protection back in 1980 when one of our employees published photos in the staff newsletter of the Bank's paper recycling initiative. But the biggest change in financial analysis happened in 1986 – 33 years ago. A disastrous fire in the Schweizerhalle chemicals plant dramatically brought home to the residents of nearby Basel the connection between their own well-being, the environmental protection measures taken by companies and the effect on share price performance.

Sustainable investments take off

However, it took another three years until a viable investment concept was developed and the first clients invested in it. Sustainable investments have experienced a boom since then. While the mutual fund market was initially developed in the 1990s in response to small investors looking to invest their money in line with their personal values, after 2000 more and more institutional clients came to us looking to fulfil their fiduciary duty and to ensure the holistic management of their investments.

J. Safra Sarasin voted Best Bank for Social Responsibility 2019

Source: Global Finance Magazine 2019

Just before the start of the last decade we took the far-sighted decision to integrate sustainability-related criteria into all private banking mandates. The volume of assets managed according to sustainability aspects rose steadily. Our approach and our success were rewarded this year by winning the 2019 award for the Best Private Bank for Social Responsibility granted by Global Finance Magazine.

Global agenda focused on sustainability

The urgency stemming from climate change has put the global community on a new course. The Paris Agreement on climate change and the UN Sustainable Development Goals (SDGs), both ratified in 2015, have triggered a substantial number of regulatory measures. The European Union assigns a key role to financial markets in its Action Plan for Financing Sustainable Growth. In the future, asset managers are likely to have to provide solid proof of the future viability of their portfolios with regard to sustainability.

Focus more than ever on sustainability

In this issue of our quarterly newsletter we describe how the journey started. We talked to contemporary witnesses and pioneers of sustainability within our Bank who were involved in this ground-breaking development at the time. We have documented the milestones in our long history of sustainability for a good reason: it is not merely a legacy associated with the past, but serves as a constant incentive to continue our role as opinion leader in this field. More than ever, our focus is squarely on sustainability and sustainable investments.

Best wishes,
Jan Amrit Poser
Chief Strategist and Head Sustainability

Interviews with the pioneers of sustainability at J. Safra Sarasin

"Sustainability must be an integral component of the Bank's strategy"

The Bank started managing its first sustainable investment mandates 30 years ago. Jan Amrit Poser spoke with some of the pioneers who showed the way forward and lead the Bank to achieve its current position as Switzerland's visionary and thought-leader in the field of sustainable investments. Reviewing past successes also produced some surprising findings. Among them was the fact that pioneering work always depends on a few people who persevere and focus on their end goal.

Interview with Kaspar Müller, Head of Corporate Finance of the Bank at the time, later Chairman of the Ethos Foundation (amongst others)

Mr. Müller, what was the original trigger within the Bank to consider sustainable investments?

Kaspar Müller
Source: Cash TV

The Schweizerhalle catastrophe on the night of 1 November 1986 started the ball rolling. The sirens wailed, the radios reported toxic clouds, warning people to stay inside and keep their windows shut. Everyone was frightened – and for good reason! In our investment meeting on Monday morning the key question then came up: What should be done with Sandoz shares? The old stock market motto was "buy on bad news" but this time we couldn't simply carry on as before. It became clear to me at the time that financial markets do not operate in a vacuum, but are part of a broader economic picture. And this also needs to be reflected in the strategy of a private bank if it is to survive in the long term.

How did the Bank's partners respond?

Initially a little surprised, but then extremely positively. The partners Alfred E. Sarasin, CEO Hans E. Moppert and Head of Research Georg Krayer took my concerns on board and commissioned me to head up a work group to carefully examine the associated challenges and opportunities for the Bank. We spent a long night with Mr. Krayer in the attic of the office in Rittergasse discussing the importance of ecology for the Bank and for society as a whole.

What were your proposals?

The Bank's success has been built on its active role in supporting many enterprises in Switzerland. Nowadays we would call this private equity. We visited companies that had been working in the area of sustainability for some time and we were keen to strengthen our business relationship with them. Of course, we also wanted to integrate sustainability criteria into our analysis of company shares.

But you must have met with some resistance?

Obviously it did take a while to implement the strategy. But you have to remember how things were back then: the UN had not yet produced a definition of sustainability, the term "ecological" was met with suspicion and most importantly, people were concerned about risks to the Bank's reputation. The CEOs of listed companies with whom the Bank also had a business relationship responded in an irritated fashion to questions about social aspects that were raised as part of the Bank's company analysis. As far as individual clients were concerned, however, I remember that especially children of wealthy clients showed a very positive response to this line of questioning.

What's your advice for the future?

The longer I spend on questions of ethics and sustainability, the trickier it is to find straightforward answers. We are mistaken if we think that synthetic and politically negotiated indicators can restore the planet's natural equilibrium. Sustainability is a process rather than a final state, so we must constantly reflect on the challenges it presents. Sustainability must also never be limited to investments alone, but must rather be an integral part of the overall culture and strategy of a bank or enterprise.

Interview with Rolf Wittendorfer, former Member of the Executive Committee in charge of institutional clients, fund management companies and marketing, as well as acting as Chairman of the Building Commission

Mr. Wittendorfer, whose idea was it to ensure the Bank's new headquarters was designed with sustainability in mind?


Rolf Wittendorfer

At the time, some analysts had started to think about sustainable investments. To be consistent, we also wanted to incorporate sustainability criteria into the design of the new building. We asked our employees about their requirements and did all we could to ensure they were met. Firstly, we made sure that paints and carpets were free of harmful substances. Secondly, we avoided tropical woods and used only local oak. The façade was intentionally light, clad with stone from the Jura. The roof was fitted with what was the largest solar system of that time, and the waste heat from our computers was reused for heating.


Christoph Fuchs, Jan Poser, Rolf Wittendorfer (L to R)
by the heat exchanger

What did you do once the building was finished in 1993?
We set up the fund management companies, which I then took charge of. I was also responsible for the Bank's marketing efforts. Working with Christoph Fuchs, I built up our fund distribution for external brokers, life insurance companies and regional banks. Then we launched a range of funds – including the first balanced fund managed according to environmental criteria – and registered them in many countries.

Do you have any advice for us?
I think some values will always hold true. First, the quality of the Bank's products and services must always be excellent. Second, the focus must always be on people, and client relationships must always be personal.

Interview with Christoph Fuchs, Head of Fund Distribution at the time

Mr. Fuchs, why did the Bank launch the first sustainability fund?
It was the dream wedding of our two core competencies: investment strategy and sustainability. The Bank wanted to bring this solution to a broader public. It's important to see this in the context of that period: awareness was increasing as people became more and more concerned about protecting the environment.

How did clients respond?
Initially many clients certainly didn't yet understand that a growth investment theme like ecology, as well as more careful scrutiny of a company's sustainability credentials, could actually reduce the investment risk or generate a higher return. Our job was to explain this to customers, and also prove it by achieving a strong investment performance.


Christoph Fuchs

That in turn has a lot to do with credibility. Unlike a big universal bank that has to cater for all possible needs, a private bank can specialise in a theme like sustainability and become a true pioneer. Our next step was to launch funds focusing on themes such as water or technology, which attracted a lot of client interest. The business steadily grew, and it wasn't long before investments reached the first billion.

Do you have any advice for us, Mr. Fuchs?
Banking is still a personal business. Customers want to see a face, someone they trust. That was always the case in the past, and will continue to be in the future. Stay exactly how you are: sincere and open to new ideas.


Jan Amrit Poser interviews some of J. Safra Sarasin's sustainability protagonists

Hans Weber, the Bank's first sustainability officer and tireless pioneer

It's impossible to set an entire bank on a sustainable course without the tireless commitment of its employees. Hans Weber was one of these pioneers whose involvement made a decisive contribution to the success of our strategy. Back in 1980 an edition of the staff magazine "The Oak Tree" carried a photo reportage of the Bank's paper recycling initiative. In 1988 he introduced a new waste disposal concept for the Bank. Thanks to his close relationship with partners, he was almost like the Bank's environmental conscience. "Be careful to ensure the internal credibility of sustainability," he repeatedly warned.


Hans Weber, Head of Bond Origination at the time

Thanks to his initiative, the Bank set up a new position of sustainability manager in 1997. He was the first to occupy the post and immediately set ambitious targets.

Newsflash! J. Safra Sarasin signs the UN Principles for Responsible Banking

As pioneers of sustainable investments, we were founding members in 2006 of the UN Principles for Responsible Investment (UN PRI). This year we are once again on the forefront of sustainability initiatives. On 22 September 2019 we signed up as founder members to the UN Principles for Responsible Banking at the UN Climate Week in New York. By signing up, the 125 or so banks commit to aligning their business strategy with sustainable development goals. They strive to continuously increasing the positive impacts while at the same time reducing the negative effects on people and the environment.

Principles for Responsible Banking

This includes working responsibly with our clients to promote sustainable practices. We proactively consult with relevant stakeholders. To this end, all signatory banks aim to establish effective corporate governance and a culture of responsible banking. This will be reported on regularly and transparently.

Our CEO Edmond Michaan: "Sustainability is an integral part of our brand. We are "Sustainable Swiss Private Banking since 1841" and our goal is to embed sustainability in every part of our business strategy."


Edmond Michaan, CEO of J. Safra Sarasin

Milestones in sustainable investments at Bank J. Safra Sarasin

How it all started…

The massive fire in the Schweizerhalle chemicals plant prompted a rethink in the Bank's financial analysis department. As the first private clients started to show an interest in sustainably managed mandates and we launched the first fund specialising in eco-efficiency, the unparalleled success story of sustainable investments started in our Bank.

It all began with an accident …

The date was the first of November, 1986. In the Schweizerhalle industrial complex near Basel, a ferocious blaze broke out in the warehouse of the former chemicals company Sandoz. The flames were 60 metres high and could be seen from far and wide. The water used to fight the blaze turned the river Rhine red. Swarms of dead fish floated down the river. A stinking cloud of smoke drifted towards the city of Basel. People were afraid, even more so due to the lack of information provided by the company and the authorities. The full extent of the catastrophe did not become clear until later on: around 30 tonnes of crop protection agents and insecticides had been washed into the Rhine.

The Schweizerhalle inferno

Source: Schweizer Fernsehen SRF

… that highlighted the importance of ESG

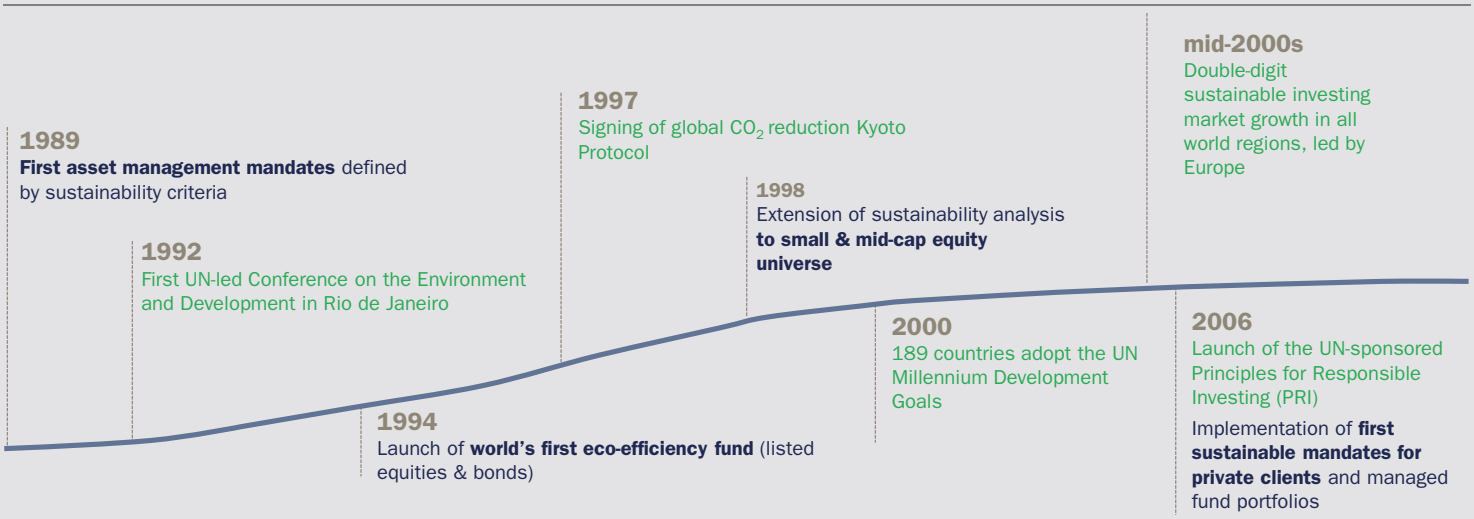
Only six months before, one of the biggest accidents to date had occurred in the nuclear plant at Chernobyl. The global community was shaken and alarmed. But while Chernobyl was essentially a human catastrophe, the accident at Schweizerhalle was also a financial disaster. The share prices of those companies affected came under massive pressure. As our analysts met on the Monday morning after the accident, it was clear that a new era had begun for them. It became very obvious that beyond pure sales and balance sheet figures, other important factors influence earnings expectations and thus company share prices, such as human health and environmental risks – and their management. Social factors, such as the treatment of employees and a transparent information policy for residents living near a factory, also have an impact on the share price. The liability of managers for any damage caused, along with the firm's governance structure, were also apparently more relevant than previously assumed. All this had to be incorporated into the analysis from now on. But the question was: how?

1986: Search for viable concepts

The idea of ESG analysis was born, but now viable concepts had to be produced to reflect these criteria in investment portfolios as well. An intense debate began on the essence of sustainability. What are sustainable business practices? What is a sustainable activity? What is a sustainable product? Are wind turbines sustainable, but the copper used in their construction too damaging to the environment? Is it possible to weigh up environmental and social criteria against each other? Is the sustainability rating the most important aspect, or is the financial appeal of the share what counts? Is the best approach to avoid investing in shares traded on the secondary market and only invest directly as a major shareholder in companies from the region, in order to retain full control? Naturally it took several years before the first concept emerged.

1989: Clients with convictions

The time was ripe for sustainable mandates. Although sustainable mandates were originally devised in a factory setting, it was the clients themselves who ensured the success of sustainable investments. The initiative came from the heirs of successful entrepreneurial families. They had inherited sizeable wealth, but were critical of the way their ancestors had managed the business. In the 1980s, the scandals surrounding dioxin transports, aggressively advertised infant milk and the chemical accident at Schweizerhalle prompted lively public debate. This led to a fundamental rethink in these families. Many heirs were keen to let their

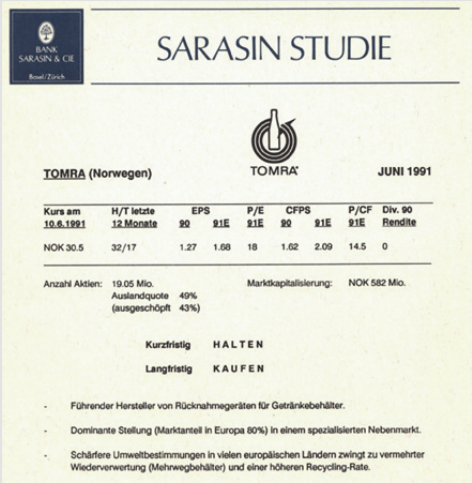


Blue: Milestones for Sustainable Investing at Bank J. Safra Sarasin

Green: World events and international milestones in Sustainable Investing

money work to support a more sustainable economy and avoid controversial investments. A series of customised mandates then marked the start of J. Safra Sarasin's success story.

One of the first sustainability studies



BANK SARASIN & CIE Basel/Zürich

SARASIN STUDIE

TOMRA

TOMRA (Norwegen) JUNI 1991

Kurs am 10.6.1991	H/T letzte 12 Monate	EPS 90	EPS 91E	P/E 91E	CFPS 90	CFPS 91E	P/CF 91E	Div. 90 Rendite
NOK 30.5	32/17	1.27	1.68	18	1.62	2.09	14.5	0

Anzahl Aktien: 19.05 Mio. Auslandquote 49% (ausgeschöpft 43%) Marktkapitalisierung: NOK 582 Mio.

Kurzfristig HALTEN

Langfristig KAUFEN

- Führender Hersteller von Rücknahmegeräten für Getränkebehälter.
- Dominante Stellung (Marktanteil in Europa 80%) in einem spezialisierten Nebenmarkt.
- Schärfere Umweltbestimmungen in vielen europäischen Ländern zwingt zu vermehrter Wiederverwertung (Mehrwegbehälter) und einer höheren Recycling-Rate.

Source: Bank's archive

1991: First environmental seminar

The Bank's archive contains a portfolio and the associated financial studies on individually selected shares. The selection focused on bonds issued by Swiss water utilities and the shares of recycling plants in Norway and the UK. The concept and portfolio were presented as part of the first environmental seminar organised by the Bank back in 1991. In his welcome speech to participants, the Bank's CEO at the time, Hans E. Moppert, personally stressed to clients that the issue of ecology had become so important that he could not imagine any financial analysis in the future that did not include sustainability aspects.

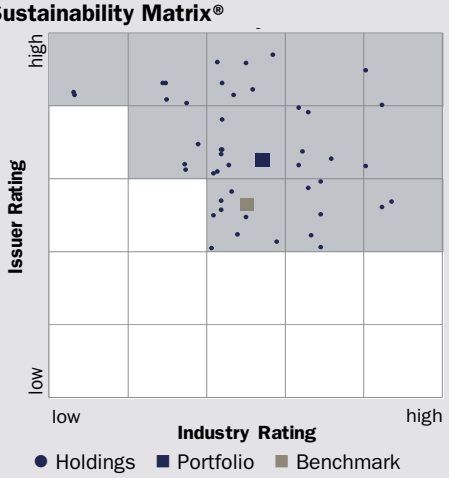
1994: The first eco-efficiency fund

The concepts of sustainable asset management quickly became a success. In 1994 the Bank decided to offer sustainable investment solutions to a broader public as well. OekoSar, the first balanced mutual fund managed according to eco-efficiency criteria, was launched. This fund combined the Bank's well-established asset management skills with its more recently acquired expertise in sustainability analysis. OekoSar soon became a success story. The core of our sustainability analysis at the time was, as it still is today, the Sustainability Matrix® developed and patented by our in-house team. Based on the two dimensions of industry rating (X axis) and company rating (Y axis) we establish our best-in-class and best-of-classes sustainability universe (shaded area).

Extension to additional asset classes

We subsequently extended our sustainability analysis to more and more asset classes. While the focus was initially on large cap listed companies, small and mid-caps were included from 1998 onwards. Then, in 2002, sovereign bonds were added, followed by direct real estate investments in 2009 and emerging-market issuers in 2010. Prior to that, the Bank had decided to take the far-sighted decision to switch the mandates of private clients completely over to sustainability.

Sustainability Matrix®



Source: Bank J. Safra Sarasin

Sustainability integrated into every step of the investment process

In 2013, we decided to integrate sustainability more systematically than ever in our investment process. This was prompted by the realisation that the commonly adopted approach of simple exclusion criteria is not sufficient. Rather, the value-adding potential of the wealth of available ESG data can only be fully harnessed if it is applied along the entire value chain of asset management. In addition to constructing the sustainable investment universe, sustainability aspects are now also embedded in our thematic financial analysis. And sustainability data can also enhance analysis in the areas of portfolio construction and reporting, as well as in the dialogue with companies or in annual shareholder meetings. After 30 years of sustainable investing, we are convinced that only the systematic use of sustainable investment tools in the investment process can help reap the full benefits and opportunities.

2009
Launch of **sustainability direct real estate** funds

2010
Launch of **sustainable emerging markets** fund

2013
Launch of **Sustainable Investing 2.0** – implementation along the investment process

2015
International visibility with joint PRI Research & Innovation events and Responsible Investor Pension Fund Awards

Launch of UN Sustainable Development Goals

2016
Launch of **Portfolio ESG Analysis & reporting** for Private & Institutional Clients

2018
6 additional sustainable funds launched

Joined **the United Nations Global Compact**

2019
Launch of the UN-sponsored Principles for Responsible Banking (PRB)

Best Private Bank Award from **Global Finance Magazine**

Source: Bank J. Safra Sarasin Ltd December 2018

Selected sustainability profiles and ratings in the third quarter of 2019

Link REIT: the first REIT to have issued a convertible green bond, globally

The principal activity of Link REIT and its subsidiaries is investment in retail properties and car park operations in Hong Kong.

Link has robust corporate governance practices in place when compared to industry and regional peers. It has integrated sustainability into company strategy, which Link identifies as a key driver to enhancing stakeholder value. The commitment to sustainability is demonstrated in Link's decision to be the first Hong Kong company to issue a green bond and first REIT to have issued a convertible green bond, globally. Link also identifies goals in which it seeks to enhance its performance and publishes specific targets. Despite positive aspects, improvements against peers remain to be observed in key environmental and social areas, including green building certification and resource management. Overall and on a relative basis, Link displays an average sustainability performance and is therefore eligible to the investment universe.

Microsoft: fit for a tougher future on privacy regulation

Microsoft displays a balanced and relatively robust approach to sustainability challenges typical to it business. Indeed, privacy and data security risks which could affect its business model are mitigated through thorough mechanism under direct board level overview. Indeed, Microsoft's approach to privacy issues including providing software users with advanced control on related settings and driving international initiatives such as the Global Network Principles are positive indications on the company's preparedness for tougher regulation including the recent European General Data Protection Regulation (GDPR). On the environmental side, significant efforts are deployed to reduce the company's footprint which is primarily related to its data centres and hardware business. Governance practices are in line with industry standards and provide shareholders with a reasonable ability to oversee and influence the company's development. Overall and on a relative basis, Microsoft is therefore eligible to the sustainable investment universe.

Xylem: providing solutions for a dryer future

Xylem is an American industrial machinery company and it effectively addresses typical sustainability risks in its sector. Indeed, the company displays above average efforts to mitigate its environmental footprint while being focused on providing solutions to water challenges globally. In particular, Xylem's product and services directly address the full water challenges cycle from collection, distribution to analysis and recycling. Furthermore, the company is developing its business in data analytics reinforcing the relevance of its offer and the resilience of its revenue while improving the potential for sustainable water management globally. From a social perspective, Xylem is on par with its peers in addressing operational and cost risks related to labour management. Governance practices are globally well aligned with shareholders interest. Overall and on a relative basis, Xylem therefore displays an above average sustainability profile and is eligible to the sustainable investment universe.

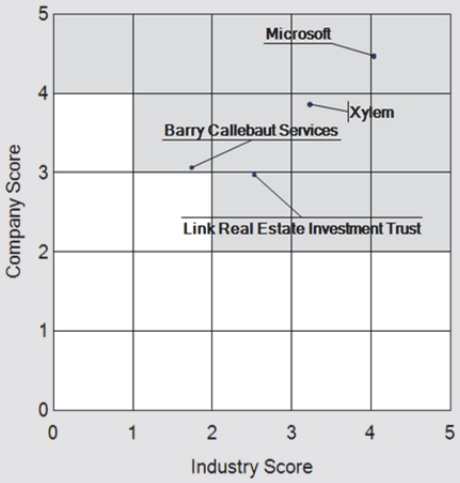
Barry Callebaut: aiming to become carbon and forest positive by 2025

Barry Callebaut is the world's largest cocoa processor. The key sustainability challenge for the company relates to sustainable cocoa sourcing. The "Forever Chocolate" sustainability strategy addresses related issues such as farmer poverty, climate change and labour rights. Negative newsflow related labour issues in the Ivory Coast and Ghana continues to exist.

The company has set the meaningful, but ambitious target to be carbon and forest positive by 2025. A number of measures are already applied and planned for the future with the goal to protect ecosystems that provide chocolate ingredients. Current efforts that relate to reducing CO2 emissions (from scope 1 to 3) already put the company at the forefront of the industry.

From a corporate governance perspective, investors should know that the company has a controlling shareholder. The Jacobs family currently holds around 50% of outstanding shares. With regards to the remuneration policy, we are expecting adjustments that should reflect longer vesting periods for equity awards granted to executive members in order to ensure to better alignment with long-term minority shareholder interests. Overall, we assign an above average sustainability rating.

Sarasin Sustainability-Matrix®



Sustainable Investment Universe

Source: Bank J. Safra Sarasin

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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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