J. SAFRA SARASIN
SUSTAINABLE ASSET MANAGEMENT

JSS Sustainable Equity – Global Thematic Investors Update

International Edition[1] | February 2021

Outlook 2021: Finding a Balanced Approach

Dear Investor

Wishing you a very happy new year, although it might not currently feel like 2021 is much different from last year, especially as I celebrate 300 days of working from home.

We added significantly to our fund in 2020 and have grown our client base substantially, and I am very grateful for this.

As for the lockdown, I have given in and bought a treadmill and an outdoor pizza oven. A balanced approach as I am sure you would expect.

On behalf of everyone in the J. Safra Sarasin Group, we wish you the best during these difficult times.

For this update, I thought I would focus on our outlook for 2021 and tackle some of the harder questions in our world, while hoping that the next update will be under better circumstances.

Kind Regards,

Giles Money
Lead Portfolio Manager

We stated in July that the world was re-opening and that the worst of the economic data was behind us. We also knew that the US political landscape would likely change and that a vaccine would be announced (even if we did not know the efficacy, structure and production capacity).

As it turns out, the optimistic data could not stop coming in during the second half of 2020. Our interpretation is that we are in a relatively unique scenario, best described as a global natural disaster with globally coordinated stimulus to mitigate it.

If you had asked me in March if we would return to seeing growth of significantly above double digits for the full year, I would not have hesitated to say it would be improbable. In fact, real returns for fixed income are still negative and equities continue to look attractive on a relative value basis, despite the last few years of positive returns.

As such, in this brief update we shall tackle three major issues facing equity investors today.

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1. Does the US political environment change anything?

- **A green agenda** is the clearest impact to our fund, with potentially new policies for greener US impact investment. A green deal and re-committing to the Paris climate accord will be the big headlines we are looking for to continue the progress.
- **International Relations** feel like they should be more rational. This concerns mainly the US' relations with China and the inherent volatility. Trade wars have had large negative impacts to trade, and so, any reduction in risk is positive for markets
- **Taxes and wealth distribution** – it is clear that tax and inequality will be a key focus under the new administration. The key will be to generate disproportionate income growth that benefits lower income groups without throttling the economy.
- **Tweaks to healthcare** but nothing dramatic. Affordable care act 2.0? Trump really didn't change too much and we would expect an expansion of coverage with unemployment benefits and associated improvements to labour law.

2. Is there any value in growth?

Definitely. The speculation in very specific headline grabbing parts of the market (read Tesla, Bitcoin and some clean energy sub-sectors) are not at this point too surprising and consequently in themselves shouldn't be constraining for the broader market.

We tend to focus on less speculative growth and in our space we can find plenty of investible companies trading at very digestible valuations.

At the same time, "value" parts of the market (excluding energy) have reverted close to norms and the market has been reasonably efficient so far.

Of course if rates move higher too quickly, then value stocks would suffer from the negative economic impact as it lends to cyclicality. As such, I do not believe there is any arbitrage opportunity in "value" today.

In any case, we only buy and own companies we think have upside potential, and so, perhaps this is less of a risk to us than some competitors who are more factor-exposed.

We believe that in the short-term, it should be a stock pickers' world and in the long term, where growth rates of economies are low and likely to remain so, the share of thematic/structural growth should increase.

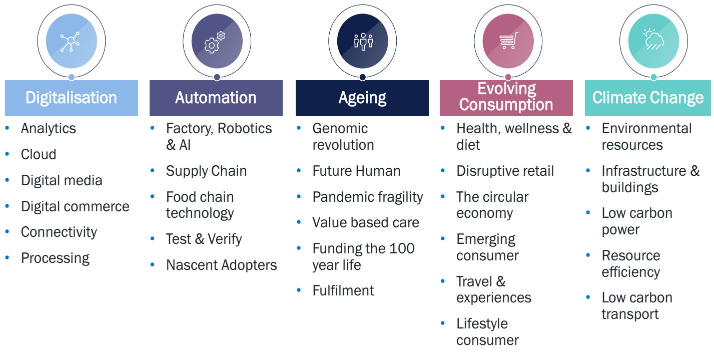
- COVID forced an extreme valuation disparity between cheap and expensive stocks. Much of this has reversed as rates and inflation expectations have moved higher.
- We think that the scarcity of truly sustainable growing companies drives their undervaluation in the long run and we have been adding to positions as valuations have moderated in the last five months.
- The largest factor rotation is behind us (November) and as such we should be in a stock pickers' market.
- 9 out of 10 of the top active positions in the fund have significantly advantaged valuations and we had already positioned for a more balanced market in September 2020.

3. Where will we see permanent change and are there any emerging themes worth looking at?

The idea that 2021 will be the inverse of 2020 is not realistic. Business and trade has been changed permanently in 2020.

On a sub-theme basis, we outline the most interesting observations below and at the mega-theme level we give our predictions for 2021.

Themes and sub-themes in Sustainable Equity – Global Thematic



Sub-themes

- E-commerce takes over – still true (can it grow in 2021?)
- Travel has a permanent loss (How quickly will it resume and what should capacity be?)
- Heathier lifestyle isn't a fad, it's here to stay (We think this is one of the strongest themes that should survive the re-opening of economies).
- Your home is everything (We think this is sustainable especially with expectations that many will move to working from home once a week).
- Free time: We think there will be a lasting philosophical change in working from home and free time.

Mega-themes

- Climate change as a theme has great momentum and tough valuations.
- Digitalisation has a mixed outlook after such a tremendous outperformance in the first half of 2020 1H. With a flat second half, is it back to business as usual?
- Automation has cyclical tailwinds.
- Ageing has some tailwinds, especially with the re-opening.
- Evolving Consumer is expected to have positive momentum and attractive valuations upon the re-opening, and we are well positioned for this outcome. The consumer has been saving and 2021 will be about spending.

As ever, balance (Pizza and Exercise), and a firm valuation focus is key to sustainable performance.

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