

# CB FONDER

Active | Ethical | Long-term

## CB Asset Management sustainability report 2018

### Sustainability for us

Founded in 1994 CB Asset Management currently manages two funds: the Europe fund CB European Quality Fund and the global environmental fund CB Save Earth Fund. Investments made by the funds are subject to an ethical and sustainable framework. For CB Asset Management it is important that we deliver a competitive return within the bounds of social responsibility and sustainability. We find matters of ESG very important for a company's possibility of creating and maintaining a stable long term return.

As of September 2018 the carbon footprint of CB Save Earth fund measured in tonnes  $CO_2e$  is **2860** which is lower than the benchmark (MSCI World Net) footprint **6787**, thus the fund has a reduced carbon footprint of **3927** tonnes  $CO_2e$  compared with the benchmark. As for CB European Quality Fund, the carbon footprint of the fund is **2563**, significantly lower than the benchmark (MSCI Europe Net) at **14823**. The calculation is made by taking the carbon efficiency for the fund and the index (tonnes  $CO_2e$  /1m SEK invested) and multiplying with the market value of the fund (less the cash account). This calculation yields the same result as taking the percentage owned of each company and multiplying by the company's total emission

According to Morningstar, both CB Save Earth Fund and CB European Quality Fund have **zero exposure to fossil fuels**. Furthermore, CB European Quality Fund has been awarded Morningstar's **Low CO2-risk** certification.

CB Save Earth Fund holds investments mainly in equities represented in either of the following indices: **Cleantech Index**, **WilderHill New Energy Global Innovation Index** and **S&P Global Water Index**. The fund is required to have at least 50% of AUM in holdings represented in these indices, however this number has mostly been kept at over 75%.

Since July 2017 and forward investments in equities represented in these indices amount to around **90% of AUM**. By the end of August 2018 this number was **84%** and **32** out of **38** holdings in the fund were represented in at least one of the indices.

- 37% of direct holdings were included in The S&P Global Water Index
- 47.5% of direct holdings were included in The Cleantech Index
- 10.5% of direct holdings were included in The WilderHill New Energy Global Innovation Index.
- 16% of direct holdings (representing 6 out of 38 holdings) were not included in any of the indices.

Some direct holdings are included in more than one of the indices.

For both CB Save Earth Fund and CB European Quality Fund, each portfolio company's commitment to the **Global Goals**, set by **U.N. Global Compact**, is monitored and published on a quarterly basis.

## Sustainability in the investment process

CB Asset Management does not invest in companies which violate international convention in accordance with the UN's Global Compact and the guidelines regarding Environment, human rights, labor law and inhumane weapons outlined by the OECD. For example CB Asset Management refrains from holding investments in companies active within nuclear weapons, land mines or cluster weapons. Should a company violate any of the guidelines above and no preventive action is taken on the company's part, CB Asset Management chooses to exclude the company. [See our exclusion list.](#)

Environment and Sustainability take high priority in the investment process for CB Asset Management. With help from two independent, market leading, companies within ESG-screening, the CB Save Earth fund is screened twice yearly to detect violations against matters of ESG. The screenings are key in ensuring that the internal investment process at CB Asset Management is based on the guidelines and restrictions set in place by the sustainability policy. In situations when a screening comes back positive for a violation, CB Asset Management evaluates the violation and decides what action to take. If it is determined that the company for which the violation is raised is not responsible for any of the actions leading to the violation, CB Asset Management can hold off on selling the holding in anticipation of preventive actions from the affected company. On the other hand if CB Asset Management agrees with the results of the screening, and the company for which the violation has been raised is not in the process of remedying it, CB Asset Management excludes the company and sells all holdings of the company in its funds.

### Case study: Kasikorn Bank

Operating since 1945, with roughly 35000 employees, Kasikorn Bank is one of Thailand's largest commercial banks. Kasikorn operates within its strong ESG-regulations, and tracks and publishes its sustainability impact, benchmarked against its clear ESG targets. Kasikorn is included in the Dow Jones Sustainability Indices and FTSE4Good, has been awarded the Bronze Class of RobecoSAM's Sustainability Award, and adheres to the U.N. Global Compact's Global Goals for Sustainable Development.

Concern has been raised with regards to Kasikorn's decision to finance the construction of the Xayaburi dam on the Lower Mekong river in Laos, with a loan of 2.8 billion USD. The dam is expected to impede fish migration, have a negative effect on the Thai and Cambodian fishing communities and cause the extinction of species found only in the Mekong River. Experts in fishery and environmental studies concluded that the Xayaburi dam risks driving already impoverished families alongside the river into poverty and further limiting their nutritional supply. The Xayaburi dam was 85 per cent completed in October 2017 and commercial operation is planned for 2019.

Kasikorn Bank has been pressured to withdraw from the Xayaburi dam project, but has been unable to do so without massive breach of contract. The political situation in the region further complicates the matter, with Thai banks playing a key role in the funding of projects in developing countries. As a result of the pressure upon Kasikorn Bank regarding its involvement in financing the Xayaburi dam, they have adopted stronger ESG-practices and a better screening of potential ESG risks. Since their involvement in the project, they have also committed to the U.N. Global Goals for Sustainable Development.

In CB Save Earth Fund we have chosen not to invest directly into equities in Asia but through an actively managed fund with very strong ESG practices. Kasikorn Bank is an indirect holding in CB Save Earth Fund through this fund and the exposure to the company is for that reason very low at 0.13% of the AUM in CB Save Earth Fund.

## Sustainability in the ownership work

As CB Asset Management is a small company we do not have the opportunity to meet with every company we hold investments in. Meetings are occasionally set up with local companies in which the portfolio managers raise matters of sustainability in an attempt to influence the companies in a positive direction.

Instead CB Asset Management relies on screenings by independent companies within ESG-screening, along with internal analysis of ESG practices when it comes to making sure that the companies we invest in are moving in a positive direction with regards to sustainability. We regularly hold discussions with clients and other parties on various topics, including sustainability, and take their thoughts and opinions into considerations when evolving our ownership work.

The six Principles of Responsible investments by the UN and the policy on sustainable and responsible investments by SWESIF are crucial for CB Asset Management in the process of choosing investments for our funds.

CB Asset Management does not exercise active ownership and does not actively participate or vote in the shareholder's meetings of its holdings.

CB Asset Management is a long-term investor with active fund management. This allows us to maintain concentrated fund portfolios of smaller size where we have deep knowledge about each holding when it comes to matters of ESG and other key areas.

## Sustainability and theme funds

The two funds managed by CB Asset Management have strong focus on sustainability, ESG-matters are integrated in all parts of the investment process for both funds. The CB Save Earth fund is our environmental fund, focusing on investment in three key areas, namely: cleantech, renewable energy and water.

## Resources and commitments for sustainability

- CB Asset Management is a signatory of the **UN PRI**, Principles for Responsible Investments and a member of **SWESIF**, Swedish Sustainable Investments Forum.
- CB Save Earth Fund is one of the very few funds in the World to have received the **Nordic Swan Ecolabel**.
- CB Save Earth Fund is screened by independent companies within ESG-screening, which provide reports of incidents and ESG violations in holdings of the fund.
- Both funds managed by CB Asset Management are connected to Hållbarhetsprofilen (hållbarhetsprofilen.se), an initiative started by SWESIF to provide investors with an overview of funds and their ongoing work with ESG matters.
- We measure carbon intensity for both of our funds which is published in our monthly reports.
- On a quarterly basis, we monitor and publish each portfolio company's commitment to the Global Goals, set by the U.N. Global Compact.

## Sustainability trends and developments

Cleantech, renewable energy and water are three megatrends that are absolutely crucial for the transition into a more sustainable future. As growth investors it is essential to find investment opportunities for CB Save Earth Fund in companies with exposure to structural growth themes that can deliver stable growth independent of the volatile business cycle – characteristics shared by companies active within these three sectors.

Partially driven by the developments in the energy sector, managers expect a strengthened global focus on issues of sustainability in coming years.

The sector is undergoing a paradigm shift where technology is taking over as the driving force, leaving natural resources behind. On the basis of technology being unlimited in contrast to natural resources, the sector should see a reduction in price with increasing demand instead of the opposite effect taking place. As seen in the IT sector the cost of technology will steadily continue decreasing. As the sector matures and growth slows down, additional profitable companies will emerge within renewable technology while still maintaining growth rates above world GDP growth. The wind power sector recently entered this state of maturity where companies like Vestas Wind are showing steady growth at a rate surpassing world GDP growth with strong profit margin.

The solar power sector is still growing at a very high rate, forcing capex and costs to be high while prices decline. In the managers' viewpoint this sector is expected to continue to be a low margin business dominated by China making it hard to find good investment ideas.

CB Asset Management invests on a basis of three core principles: Active, Ethical, Long-term. An ethical and sustainable framework is applied in the portfolio management and it is the managers' belief that long-term investing is synonymous with investing in ethics and sustainability.

Based on the managers' belief that companies working qualitatively with issues regarding ESG will be better investments in the long term, the companies in which the fund invests are screened on the basis of ethics and sustainability. Research shows support for this viewpoint, as seen for example in a paper by Eccles et.al. (2011) which argues that companies adopting sustainability policies outperform their counterparts with great margin, in the long term.

Attributed to the funds focus on ethics and sustainability, both CB Save Earth Fund and CB European Quality Fund has been awarded the environmental-ethical M/E-labeling from the Swedish Pensions Agency.

## Top Ten Holdings (CB Save Earth Fund) – ESG Risks and Opportunities

### Xylem, 4.8% of AUM

Xylem creates innovative and smart technology solutions to meet the world's water, wastewater and energy needs. The revenue is generated primarily from solutions in energy efficiency and water infrastructure. Xylem adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions in 9 out of 17 of the goals.

Xylem is a global water technology provider, enabling customers to transport, treat, test and use water in public utility, residential, commercial, agricultural and industrial settings. Xylem produces a range of pumps and mixers for the mining and mineral processing industries as well as provides the oil and gas and power generation industries with a wide array of pumps, mixers, valves and actuation equipment.

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### **Ansys, 4.6% of AUM**

Ansys enables design and performance testing of products in structures, fluids, electronics, energy etc. Eliminates the need of unnecessary waste of resources on prototypes. Estimated 60% of revenue from companies producing energy efficient products.

The main ESG risk regarding Ansys is its high carbon footprint, as compared to its peers. However, Ansys has been successful in its work for pollution prevention.

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### **Ilex, 4.5% of AUM**

Ilex produces measuring equipment for water and agriculture, which serves to improve water and environmental safety. Ilex adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions in 11 out of 17 of the goals.

Ilex, through its subsidiaries, AT Films and PPE, manufactures precision, high-quality optical components, coatings and high performance sealing solutions, providing O-rings, custom mouldings and other seal geometries for applications in the fields of scientific research, defense, aerospace, telecommunications, and laser and semiconductor manufacturing. The products' military applications include, among others, guidance systems for target designation. GES estimates that weapons-related products and services account for less than 1% of the annual revenues.

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### **Roper, 4.4% of AUM**

Roper produces energy systems and control segment, and provides tools for testing energy systems for efficiency, test of fluid properties etc.

As for ESG risks, Roper performs poorly with regards to carbon footprint and water conservation.

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### **Danaher, 4.3% of AUM**

Danaher Corporation designs, manufactures and markets professional, medical, industrial and commercial products and services. The company's subsidiary, Tektronix, is engaged in the production of test, measurement and monitoring technology for military and aerospace industries and provides microelectronic engineering and manufacturing services to the military such as missile guidance systems. Paall Corporation provides fluid filtration and separation solutions for military vehicles and aircrafts. The services and products are considered to be of dual-use character.

The business segment "Water Quality" helps protect the global water supply and ensure environmental stewardship.

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### **A.O. Smith, 3.4% of AUM**

A.O. Smith produces a product line of renewables based technology, significantly outperforming its competitors in terms of system efficiency.

The company has a high carbon footprint, but is very successful in pollution prevention.

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### **Tomra, 3.4% of AUM**

Tomra Systems ASA is a Norway-based company that produces sensor-based solutions for optimal resource productivity. The company manufactures raw materials sorting equipment which also includes machines used for removal of the non-tobacco related material from cigar filler materials used for machine manufactured cigars. The company's products are considered as products with dual-use applications. Tomra adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions in 4 out of 17 of the goals.

Tomra is active within waste and secondary resource management, sustainable food & agriculture and energy efficiency.

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### **Halma, 3.4% of AUM**

Halma's fastest growing business segment is its environmental segment, with solutions within water infrastructure, water quality, pollution monitoring and renewables. The company adheres to the U.N. Global Compact's Global Goals for Sustainable Development, with clear actions taken in regards to each of the 17 goals.

Halma's subsidiary, Alicat Scientific, produces gas mass-flow meters, which are used to test for leaks at nuclear power plants.

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### **Infineon, 3.0% of AUM**

Infineon provides products and services that enable savings in CO2 emissions during use in the end product. For example electric cars, renewable energy installations and electric car chargers. Infineon adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions in 11 out of 17 of the goals.

Since Infineon is not listed on US stock exchanges, they are not legally obligated to publish reports on conflict minerals. However, they do have strict procedures in place to ensure that their supply of tantalum, tin, gold and tungsten is conflict free.

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### **Umicore, 3.0% of AUM**

Umicore has activities within recycling and clean mobility, such as cathode materials for Li-ion batteries for electronic cars, and catalysts for light and heavy duty vehicles.

To prevent the risk of aiding the trade of conflict minerals, Umicore has focused on the recycling of precious metals, with their facility in Hoboken as the world's largest and most complex metal recycling plant. Furthermore, Umicore works with a strict code of conduct with regards to conflict-affected minerals.

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