

## CB Asset Management sustainability report, September 2020.

### Sustainability for us

Founded in 1994 CB Asset Management currently manages two funds: the European fund CB European Quality Fund and the global environmental fund CB Save Earth Fund (See Appendix 1). 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 2020, using data for 2018, the carbon footprint of CB Save Earth fund measured in tonnes  $CO_2e$  is **5521** significantly which is lower than the benchmark (MSCI World Net) footprint **14457**, thus the fund has a reduced carbon footprint of **8936** tonnes  $CO_2e$  compared with the benchmark. As for CB European Quality Fund, the carbon footprint of the fund is **1919**, also significantly lower than the benchmark (MSCI Europe Net) at **16778**. 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.

Both CB Save Earth Fund and CB European Quality Fund have been awarded Morningstar's **Low CO<sub>2</sub>-risk** certification. Morningstar have given CB European Quality Fund the **highest sustainability rank** (5 of 5 globes) and CB Save Earth Fund a **high sustainability ranking** (4 of 5 globes). Further, 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 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%.

By the end of August 2020 this number was **79%**, and **34** out of **43** holdings in the fund were represented in at least one of the indices.

- 43% of direct stock holdings were included in The S&P Global Water Index
- 36% of direct stock holdings were included in The Cleantech Index
- 7% of direct stock holdings were included in The WilderHill New Energy Global Innovation Index.
- 18% of direct stock holdings (representing 8 out of 44 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.](#)

Both [CB Save Earth Fund](#) and [CB European Quality Fund](#) are connected to SWESIF Hållbarhetsprofilen and exclude all controversial products and services mentioned by SWESIF such as weapons, alcohol, uranium and pornography.

Environment and Sustainability take high priority in the investment process for CB Asset Management. With help from MSCI ESG Research, both CB European Quality Fund and CB Save Earth fund is screened continuously 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: Siemens

The technology company Siemens is a leading supplier of power generation, power transmission and infrastructure solutions, as well as automation, drive and software solutions for industry and of medical diagnostics solutions. With roughly 380000 employees and headquarter in Munich, the company operates in nearly all countries of the world. Siemens uses the United Nations' Agenda 2030 and the U.N. Global Compact's Global Goals for Sustainable Development as guidelines to reach their ESG targets. In 2018, Siemens was listed in the DJSI World Index for the 19<sup>th</sup> consecutive time, and was rated the most sustainable company in its industry by RobecoSam/Dow Jones.

Concerns has been raised since 2012 when Siemens announced that they had won multiple tenders of the Moroccan government for construction of wind parks in occupied Western Sahara. The most controversial of all constructions is the Fom el Oued wind park raised in 2013. The wind park supplies 95% of the energy needs of the phosphate mine of Phosboucraa. Hence, almost all energy used for the exploitation and transport of the phosphate rock in Western Sahara is generated by windmills delivered by Siemens. The company has continued to operate in the occupied territory, and in late 2018 they constructed the 200 MW windfarm Aftissat.

Saharawi refugees has gathered to protest against Siemens with the message that Siemens is supporting the Moroccan occupation of Western Sahara by developing energy infrastructure in the territory. In addition, they claim that Morocco is spreading false information by suggesting that all Siemens projects are located in Morocco, and not in occupied Western Sahara. Siemens has clarified that they have no intention of breaking the law or to come near a breach of law, and that their activities are fully legal.

Until August last year, Siemens was a direct holding in CB Save Earth Fund. The exposure of the company had decreased successively over time, from approximately 2%, to 0.5% in August when the stock was completely divested.

### **Sustainability in the ownership work**

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.

The company acts in the interests of customers to promote good long-term development in its holdings. This can be done through meetings or other communication with management and/or by voting at the annual meeting of shareholders. Voting can also be done through a representative. Methods should be chosen based on the expected opportunity to influence relative to the resources required for the action.

If a company management acts in a direction that we deem to be unfavorable to the shareholder, we normally sell the holding. Our assessment from an investor perspective is that it is more favorable from a return perspective to sell in the face of dissatisfaction than trying to influence the management.

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.

### **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**.
- Both CB European Quality Fund and 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 CB Save Earth Fund and CB European Quality Fund are connected to SWESIF Hållbarhetsprofilen, 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.

## External sustainability ratings

- **Morningstar** has awarded CB European Quality Fund with its **Low CO2-risk** certification. The fund has **the highest sustainability** rank (5 of 5 globes), and no exposure to fossil fuels.
- **MSCI ESG Research** rates CB European Quality Fund AA. The fund is in the 93<sup>rd</sup> percentile of the global ranking. Half of the fund's holdings are rated ESG leaders and none are rated ESG laggards.
- **Morningstar** has awarded CB Save Earth fund with its **Low CO2-risk** certification. The fund has a **very high sustainability** rank (4 of 5 globes), and no exposure to fossil fuels.
- **MSCI ESG Research** rates CB Save Earth Fund AA. The fund is in the 93<sup>rd</sup> percentile of the global ranking. 40 percent of the fund's holdings are rated ESG leaders and none are rated ESG laggards

## 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.

The energy 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.

The global population is growing rapidly, causing the demand for water to outgrow the supply. Further, an increased number of weather events such as storms and droughts are aggravating the water supply. The broadening gap between water supply and demand in combination with the fact that water cannot be substituted makes the water sector appealing to invest in. In addition, the water sector has a highly attractive risk and return profile.

As of today, a substantial part of systems used in the energy and water sector are aged. Their performances are insufficient and the systems are considered to be inefficient. Actors competing in these sectors recognize this and strive to meet the efficiency demands of the market in order to maintain a competitive edge. Thus, both the energy and the water sector are characterized by heavy efficiency improvements. This appeals to the investors since it leads to reduced expenditures from the companies and makes them more sustainable in the long term.

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.

**Portfolio analysis for CB Save Earth Fund, as of September 2020**

**Weighted portfolio contributions to the UN Global Goals**



**Top ten holdings – ESG risks and opportunities**

**Nibe, 4.7% of AUM**

Nibe Industrier is an international heating company, operating within three business segments. Nibe Climate Solutions manufactures and sells indoor climate comfort products for residential and commercial properties. Nibe Element is involved in the manufacturing and sale of components and solutions for heating. Nibe Stoves provides manufactures energy efficient stoves for both residential and commercial properties. Nibe has a clear sustainability policy and is continuously working towards providing more energy efficient solutions.



As of year end 2019, 56% of their revenue was generated from LCE classified products, which is a quantitative climate model developed by FTSE. Since 2013, they have been targeting a 30% reduction in energy use, and as of year end 2019, this goal was achieved. The company adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions taken in regards to six of the goals.

Nibe is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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### Vestas Wind, 4.6% of AUM

Vestas Wind is a market leading manufacturer of wind turbines. They operate in two main segments; Vestas Power Solutions, which sells and manufactures wind power plants, wind turbines etc, and Vestas Service, which services and maintains these power plants. Sustainability is a clear priority for Vestas. They have formulated four sustainability goals which the company strives to achieve. They aim to be carbon neutral by 2030 and to produce zero-waste wind turbines by 2040. Furthermore, they want to be the safest, most inclusive and socially responsible workplace in the energy industry, while leading the transition towards a world powered by sustainable energy.



The company adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions taken in regards to six of the goals. Vestas is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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### Danaher, 4.3% of AUM

Danaher Corporation designs, manufactures and markets commercial products and services within five segments: life sciences, diagnostics, dental, environmental & applied solutions, water quality and product identification. Within the five business segments, the company researches the causes of disease, provides healthcare software and helps to protect the global water supply. In 2018, the company established a sustainability framework focusing on innovation, people and environment. Danaher aims to advance in health and safety at a global level, to deliver life-saving innovations and to reduce their carbon footprint.

Danaher is not involved in any major ESG controversies, and has no prohibited business involvement. It has an average ESG score according to MSCI.

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### Schneider Electric, 4.2% of AUM

Schneider Electric is an energy management company providing energy and automation digital solutions for efficiency and sustainability to homes, buildings, data centers, infrastructures and industries. Approximately 5% of Schneider Electric's revenue is invested in R&D. The company adheres to U.N. Global Compact's Global Goals for Sustainable Development, with clear actions taken in regards to each of the 17 goals. Furthermore, the company is regarded as one of the best world changing companies in the Fortune magazine's annual Change the World list for 2019.



The company is committed to achieve carbon neutrality by 2030 by reducing carbon emissions of their sites and those of their industrial ecosystem, including suppliers and customers.

Through its majority owned subsidiary AVEVA, Schneider develops and provides multiple components used in the production of nuclear power. These include design and construction of plant instrumentation and control systems; control room design; turbine control system upgrades; feedwater control systems; and other software applications. Schneider owns 60% of AVEVA, but the revenue generated from activities related to nuclear power is less than 1% of its overall revenue. It has an average ESG score according to MSCI.



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### Xylem, 3.9% 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 taken in regards to each of the 17 goals. Furthermore, the company is regarded as one of the best world changing companies in the Fortune magazine's annual Change the World list for 2019.



The sustainability goals for 2025 are to use only renewable energy and to provide access to clean water for at least 20 million people living at the base of the global economic pyramid. In addition, Xylem intends to give 1% of Xylem employees' time and 1% of company profits to water-related causes and education.

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.

Xylem is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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### Thermo Fisher, 3.9% of AUM

Thermo Fisher is a biotechnology company helping customers accelerate life sciences research, solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase laboratory productivity. Their extensive portfolio of environmental technologies includes systems for analyzing water and air, fog testing systems, environmental sample containers etc. The company supports the Ten Principles of the U.N. Global Compact with respect to human rights, labor, environment and anti-corruption.

Thermo Fisher is working towards a zero waste vision and has developed social and environmental policies regarding operational integrity, colleagues, communities and environment. In 2018, the company's site in Eindhoven, Netherlands, moved to all renewable energy sources which reduced the site's CO<sub>2</sub> emission by a factor of 10.

Thermo Fisher conducts animal testing for the development of products and tools for scientific research. It is not involved in any major ESG controversies. It has an average ESG score according to MSCI.

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### Kingspan, 3.8% of AUM

Kingspan offers high performance insulation and building envelopes through its 5 operating divisions: Insulated Panels, Insulation Boards, Light & Air, Data & Flooring Technology and Water & Energy. The company aims to be the world's leading provider of low energy building envelopes, to tackle climate change by providing high performance insulation and to drive sustainable practices through sustainability programs.

By 2019, Kingspan has seen a 90% reduction in carbon intensity in its operations and is on target to achieve its goal of Net Zero Energy by 2020. Kingspan is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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### **Halma, 3.2% of AUM**

Halma provides technology solutions in the health, safety and environmental markets. Its fastest growing business segment is its environmental segment, with solutions within water infrastructure, water quality, pollution monitoring and renewables. Halma has a clear focus on sustainability, with one of the board members appointed as leading their approach on sustainability. They have entered contracts to reduce their carbon emissions by over 2000 tonnes by the end of 2022. They have also commenced a company wide review of their electronic waste, aiming to reuse or recycle more than 99% of electronic waste.

Halma is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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### **Iindex, 3.0% of AUM**

With operations on five continents and a strong foothold in developing countries, Iindex serves to provide highly-engineered solutions to their customers. The core business areas are fluid & metering, health & science technologies and fire & safety, whereas they offer solutions from leak detection within infrastructure to personalized medicine. Through its charity organization Iindex Foundation, the company has supported projects such as distribution of medical kits for refugees, rebuilding shelters for homeless people and creation of local food banks.

Iindex is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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### **Spirax Sarco, 2.8% of AUM**

Spirax Sarco Engineering manufactures solutions for the use of industrial and commercial steam systems, temperature management systems and electric heating. They are active in many market segments, with the goal of helping their customers improve system reliability, save energy, improve productivity, and improving and expanding their steam system.

Spirax Sarco has a well-defined focus on sustainability. Their products create sustainable value by reducing their customer's environmental impact and enabling them to operate more efficiently and safely. In 2019, 7.2 million tonnes of carbon-dioxide was saved by customers using their products. Spirax Sarco is not involved in any major ESG controversies, and has no prohibited business involvement. It has the highest possible ESG score according to MSCI.

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## Appendix 1

<b>Fund</b>	<b>LEI</b>	<b>ISIN</b>
<b>CB European Quality Fund</b>	549300G6TK5TFMDMOC83	LU0112589485 LU0806934948 LU1179404386
<b>CB Save Earth Fund</b>	529900CM3ES7TC9YOL54	LU0354788688 LU1760112463 LU0354788506 LU1053083884