

COVID-19 RECOVERY

A very warm welcome to the *Sustainable World Investors' Report* covering the second quarter of 2020. Hawksmoor's Sustainable World portfolios allow investors the opportunity to align their investment objectives with supporting the United Nations Sustainable Development Goals. Alongside your investment valuations, each quarter we use these Investors' Reports to showcase the sustainability credentials of funds within your portfolio and highlight important wider trends.

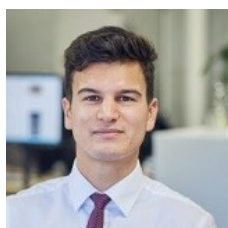
The COVID-19 crisis has accelerated changes in behaviour and attitudes towards sustainability which were already underway. This topic is explored on the back page of this Investors' Report. Social factors, illustrated by but not limited to the recent protests associated with the Black Lives Matter movement, have arguably increased in prominence within the context of Environmental, Social and Governance (ESG) investment this year.

This quarter's Fund Focus is on **Fidelity Sustainable Water & Waste**, a fund we mentioned in our previous Investors' Report as having recently been added to our Buy list for potential inclusion within Sustainable World portfolios. This sustainable thematic equity fund represents a structural long-term investment opportunity.

We also highlight some of the more noteworthy developments with regards to progress on environmental and sustainability issues globally.



James Clark



Ben Luck

UN Sustainable Development Goals



Source: <https://www.un.org/sustainabledevelopment/>

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Fidelity Sustainable Water & Waste

Fidelity Sustainable Water & Waste was launched in November 2018 following the arrival at Fidelity of fund manager Bertrand Lecourt, who has worked within the water and waste sector for his whole career. The themes of water and waste are brought together in this fund because their drivers are essentially the same. For example, more people living in cities globally leads to increased clean water and sanitation needs, and an increased need to manage waste; whilst more pressure on infrastructure increases the need for water network build-out and repairs, and increased investment in waste solutions. Evidence suggests that as a country's economy grows its water tariffs offer significant upside and its waste volumes substantially increase.

The manager invests in companies from across the value chains of these two sectors, encompassing companies involved in the design, manufacture or sale of products and services connected with the water and waste sectors. This is not simply regulated utility companies; it's everything from pump manufacturers through to owners of dams and reservoirs, from collectors of bins through to operators of waste-to-energy facilities. Each company in the portfolio must have circa 40% exposure to the themes of water and waste (or both), whilst the portfolio overall must have at least 80% thematic purity. The manager runs a fairly concentrated portfolio of 35-50 holdings, utilizing a framework under the headings of 'core compounders' (forming circa 50% of the portfolio), 'medium-term winners' and 'emerging winners'. Fidelity Sustainable Water & Waste got off to a great start in life, returning 26% over the course of 2019, and we believe this fund represents a good long-term opportunity for investors considering the potential of these two themes.

Lead drivers supporting water and waste



Source: Fidelity International



Bertrand Lecourt, Portfolio Manager

Within the Hawksmoor Research team's daily internal email we have a 'Sustainability Snippet', highlighting sustainability items in the news along with developments in the sustainable investment universe. Here we present a small number of snippets from the second quarter of 2020.



12th May: A 30-metre wooden wind turbine tower has recently been erected in Sweden, as part of a research project by the Swedish Wind Technology Centre in conjunction with engineering firm Modvion. The tower is made from multiple layers of 3-4mm thick Nordic-grown spruce and is covered in a waterproof coating. Relative to steel, traditionally used to construct wind turbine towers, wood has the benefits of reduced CO2 emissions in manufacturing, being cheaper to construct, can be transported in smaller batches, can potentially make longer turbines, and can ultimately be recycled. No turbine has yet been mounted on top of the tower – that will follow later this year in a testing phase. Modvion ultimately plans to build wooden wind turbines 150 metres tall.

21st May: CDP, formerly the Carbon Disclosure Project, has reported a 24% increase in the number of companies asking their suppliers to report environmental data this year. Companies including Sainsbury's, HSBC, Orsted, Airbus and Nike have started working with CDP in 2020, asking their key suppliers to report data through CDP's disclosure platform on their impacts, risks and strategies related to climate change, deforestation and water security issues. Over 150 organizations with combined procurement spending of over \$4tn are now working with CDP in this manner. There has been a notable 34% increase in the number of North American organizations joining CDP, and a 46% increase in those specifically asking suppliers about their deforestation impacts.



27th May: Planning permission was approved in Lincolnshire last week for the UK's first 'waste to jet fuel' plant. AIM-listed renewable fuel developer Velocys, in partnership with British Airways, Shell and the Department for Transport, plans to build the 'Altalto' project in the north east of the county. Construction is set to begin in 2022 and the site could be operational by 2025. Hundreds of tonnes of domestic and commercial waste could be turned into fuel to be used by the aviation industry, with an estimated 70% net reduction in greenhouse gas emissions per tonne relative to traditional jet fuel. The site could produce up to 20 million gallons of fuel per year.

8th June: Personal protective equipment (PPE) is obviously very important and in high demand at the current time, but have you thought about the huge volume of single-use plastic items that comprise PPE? Last week the campaign group A Plastic Planet launched what is believed to be the world's first plastic-free PPE. In conjunction with Transcend Packaging and sustainable packaging designers and suppliers Reelbrands, A Plastic Planet has developed a plastic-free visor made from FSC-certified paper board (Forest Stewardship Council) and PEFC-certified cellulose from wood pulp (Programme for the Endorsement of Forest Certification). It's called the REELshield Plastic Free Visor, and is now being made in Britain at the rate of over a million units per week. Plans to supply charities in East and South Africa and to manufacture in the US are all underway. The visor is both recyclable and compostable, and TerraCycle are getting involved with a collection service.



As introduced on page one, we believe that the COVID-19 crisis has accelerated changes in behaviour and attitudes towards sustainability which were already underway. The link between COVID-19 and sustainable investment is one worth highlighting because there are significant investment opportunities arising.



The COVID-19 crisis has changed the way in which people live, work, travel and transact. Some of these changes have been forced upon us by lockdown, but some have arisen as a result of people having time to consider their personal circumstances and what is important to them. We believe we will continue to see a move from the physical to the digital domain, and a greater focus on health and well-being, resilience and the environment.

More specifically, there will be more online shopping, communication and education – this will require more resilience and greater capacity in IT systems, and more investment in critical infrastructure such as data centres and communications towers. We believe more people will work from home in future, necessitating less travelling for work (but with a greater awareness of the environmental impact when we *do* travel) and enabling the quicker adoption of electric vehicles. Allied to this, as renewable sources continue to generate record proportions of power generation there will be ever greater appreciation of renewable energy and awareness of the environmental impact of burning fossil fuels. We believe energy efficiency will be afforded even more importance, in both commercial and domestic settings. Investment in healthcare will need to increase, covering everything from small consumable items to the critical infrastructure of intensive care units.



Many of the funds which feature in Hawksmoor's Sustainable World portfolios already invest along these thematic lines, and have been doing so for many years. The strength of these themes, and the underlying investee companies, has translated into the strong performance of our favoured sustainable funds in recent years. COVID-19 will accelerate these sustainable investment themes.

IMPORTANT INFORMATION

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