HAWKSMOOR
INVESTMENT MANAGEMENT

SUSTAINABLE WORLD INVESTORS' REPORT

AUTUMN 2020

BUILD BACK GREENER

A very warm welcome to the *Sustainable World Investors' Report* covering the third 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.

We have argued since its onset that the COVID-19 crisis has accelerated changes in behaviour and attitudes towards sustainability which were already underway. The pandemic has increased peoples' focus on health and resilience, and made us pause to think about how we work and travel – to name but a few considerations. In terms of investment, themes including digitalization, improving efficiency, health, well-being and safety have increased in prominence this year. Funds held within your Sustainable World portfolio already harness these investment themes, and have done so for many years – in some cases decades. Returning to the direct implications of COVID-19, on the back page of this Investors' Report we explore the Prime Minister's ambition to 'Build Back Greener'.

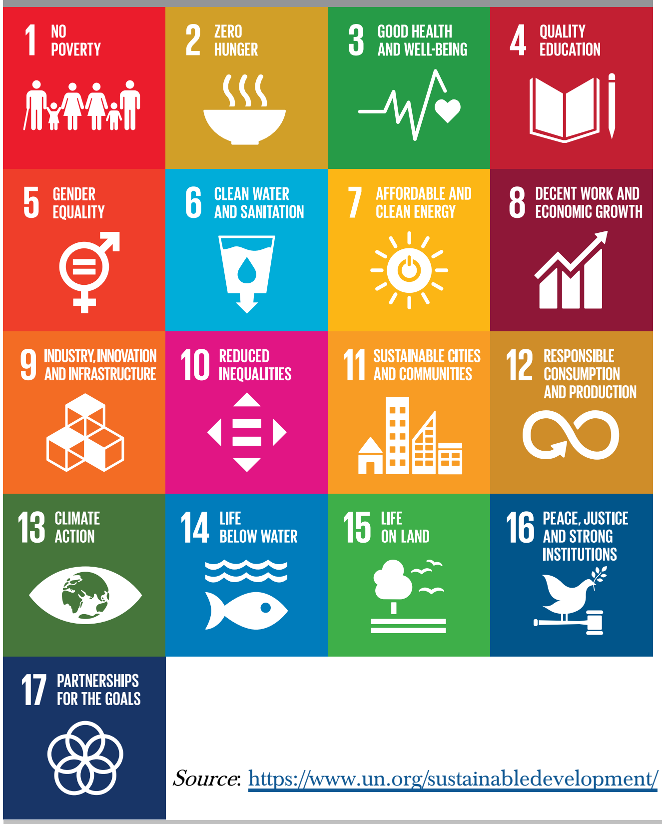
This quarter's Fund Focus is on **EdenTree Amity UK**, a fund which has been on our Buy list for potential inclusion within Sustainable World portfolios since early 2017. The managers' focus on companies which they believe to be undervalued is a valiant and differentiating attribute in a peer group which can be dominated by growth-orientated strategies.

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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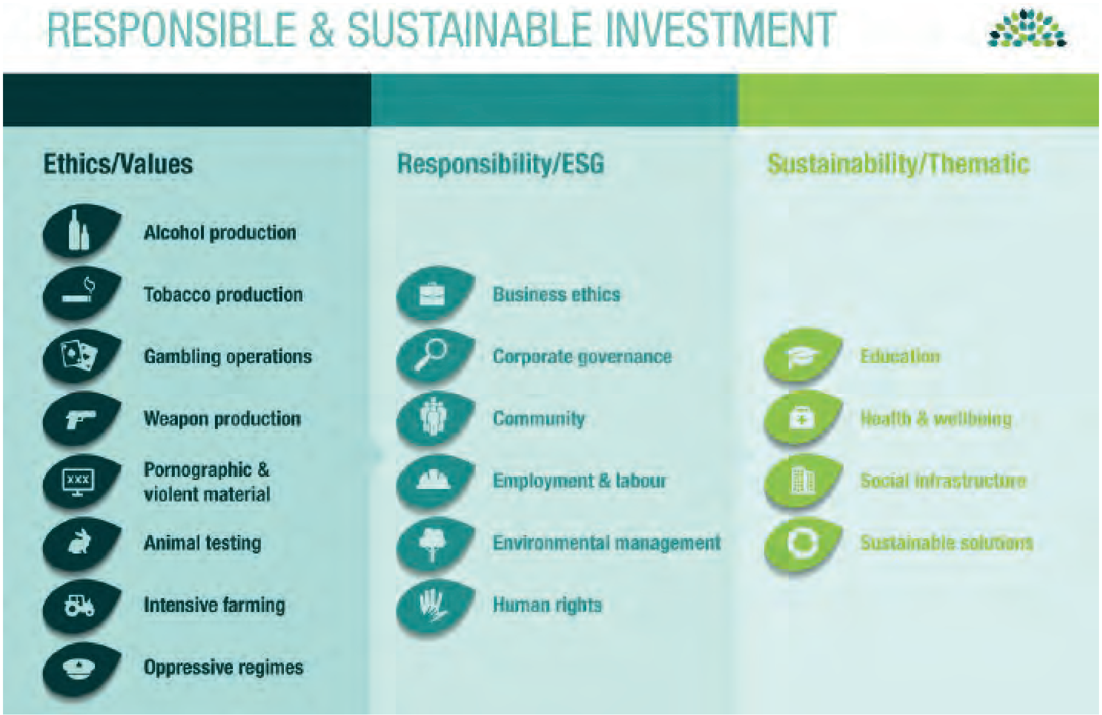
EdenTree Amity UK

EdenTree Investment Management is a relatively small fund management group specializing in Responsible and Sustainable investment (RI). An in-house RI team carries out screening for all funds in the EdenTree Amity range, engages with companies to pursue issues of concern (such as low levels of female representation on company boards) and encourages improved behaviour (such as better disclosure and management of climate impacts). A comprehensive negative screening process covers 8 categories of exclusions (such as alcohol, tobacco and weapons). In our view it is the positive screening process which is a standout feature of the EdenTree Amity funds, searching for companies demonstrating long-term positive sustainability trends in 10 categories, of which 6 are core (such as strong labour relations, corporate governance and environmental management) and must be met in order for a company to be included in portfolios.

EdenTree Amity UK was launched in 1988 and is one of the oldest sustainable funds in the UK marketplace. Sue Round has managed it since launch, and was joined as co-manager by Ketan Patel in 2016. Patel joined EdenTree as an analyst in 2003, so the managers have worked together for 17 years and it was no surprise that he became the fund's lead manager in 2019. Patel has set about making the portfolio slightly more concentrated (typically 60-80 holdings) and increasing the focus on the quality of companies owned within the portfolio. However their investment style steers the managers towards companies which they believe to be undervalued, which is a valiant and differentiating attribute in a peer group which can be dominated by growth-orientated strategies. The portfolio is invested across the market capitalisation spectrum from very large companies down to small companies, with the managers favouring companies offering defensive growth via sustainable business models. The good medium-term performance record of EdenTree Amity UK includes evidence of downside capital protection during weaker market conditions.



Source: EdenTree Investment Management https://www.edentreeim.com/approach

Sue Round and Ketan Patel, Fund Managers

SUSTAINABILITY IN THE NEWS

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 third quarter of 2020.

14th July: In a survey of UK business leaders by the energy firm E.ON, 72% of respondents said that COVID-19 has made them reconsider the environmental credentials of their company. In the 500-strong survey conducted last month, two-thirds said that businesses hold the most responsibility to 'build back better', and one-quarter are planning to localise their supply chains within 12 months (and improve their resilience), based on consumer demand for more locally-sourced products. Lockdown has made 48% of respondents reconsider their own personal sustainability habits, and 37% want to make further changes as they adjust to a 'new normal'. Of these changes, more re-use and recycling (85%), saving energy (68%) and shopping locally (53%) are the most popular choices. (Source: *www.edie.net* as at *14/07/2020)*

31st July: The UK's largest pension scheme by number of members is set to divest its fossil fuel exposure. The government-backed National Employment Savings Trust scheme, more commonly known as Nest, has around 9 million members. Nest has pledged to remove thermal coal mining, oil sands and Arctic drilling exposure from its portfolio by 2025. Divestment will begin immediately, with BHP Group shares being sold. The new policy on fossil fuel exposure will have 15% turnover limits on these activities, which will still permit investment in companies transitioning from fossil fuels to renewable energy and clean technologies, and as such this is not a full divestment programme. Nest reports that 75% of its members say that responsible investment is important to them, while 68% of UK savers want their investments to 'consider people and planet alongside profits'. Divestment proceeds, estimated to be £5.5bn (over the whole timeframe), will be diverted to 'climate-aware' investments including renewable energy generation and clean technologies. (Source: *www.edie.net* as at *31/07/2020)*

14th August: Saturday 22nd August marks Earth Overshoot Day 2020 – the calendar date at which humanity will have used up nature's resource budget for the entire year. Marked since 1970, Earth Overshoot Day is effectively the dividing line between resource demand falling within Earth's biocapacity (the part of the year *before* Overshoot Day) and resource demand exceeding Earth's biocapacity (the part of the year *after* Overshoot Day). Since 1970, Earth Overshoot Day has steadily crept forward (from 31st December) each year, moving into August in 2005 and has broadly fallen in early August since 2010. Earth Overshoot Day 2018 and 2019 both fell on 29th July, but this year, due to Covid-19, the date has retreated by the greatest margin since the initiative began. (Source: *www.overshootday.org* as at *14/08/2020*)

25th September: Xi Jinping's address to a virtual UN general assembly took an unexpected turn when the Chinese leader announced that his country will now target net zero carbon emissions by 2060 and ensure that its greenhouse gas emissions peak within the next decade. As the world's largest emitter, China had previously committed only to aim for peak emissions in around 2030, and its response to the Covid-19 crisis had included plans to build more coal-fired power stations. This comes ahead of China's 14th five-year plan, which will include detailed development targets from 2021 to 2025. This announcement by Xi should give fresh impetus to the UN's efforts on climate change, and is a major boost for the prospects of next year's (postponed from this year) COP26 climate summit in Glasgow. With the EU also ramping up its efforts ahead of COP26, this announcement by Xi brings China to the party, and so the major emitter missing is the US – Trump would formally withdraw the US from the Paris climate change agreement the day after the Presidential election in early November, but Biden has vowed to rejoin the Paris agreement. (Source: *www.bbc.co.uk/news* as at *25/09/2020*)

BUILD BACK GREENER

The COVID-19 pandemic has pushed the 'pause' button on a huge amount of economic activity. With this comes a great opportunity to, in the words of Boris Johnson, 'Build Back Greener'. In early October the Prime Minister announced an ambition for wind farms to power every home in the UK by 2030. The plan included a £160 million package to upgrade ports and factories for building wind turbines, creating 2,000 jobs in construction and supporting 60,000 more, initially focused on the Teesside and Humber region along with Scotland and Wales. The Prime Minister's plan focused exclusively on the offshore wind industry, where the target capacity was increased from 30 gigawatts by 2030 to 40 gigawatts. Mr Johnson wants the UK to become 'the Saudi Arabia of wind power'

The energy sector has accounted for much of the UK's reduction in carbon emissions relative to levels seen in the 1990s. This reflects a reduction in fossil fuel usage whilst renewable sources of energy provided a greater proportion of the nation's power. Yet to make meaningful progress towards the national target of net zero carbon emissions by 2050, more drastic action is required.

Though once viewed as being expensive, inefficient and unable to cater for a meaningful proportion of a nation's power demands, renewable energy has experienced a huge surge in popularity in recent years. The Prime Minister's bid to become the global leader in wind energy is only the beginning. Indeed, the above ambition is the first stage of a ten-point plan for a 'green industrial revolution', with Downing Street promising the rest of the details by the end of 2020.

Funds held within Sustainable World portfolios harness the investment opportunities presented by the 'Build Back Greener' initiative. A number of our chosen global equity funds, including **EdenTree Amity International**, **Jupiter Ecology** and **WHEB Sustainability**, invest in companies including Vestas (a Danish manufacturer, installer and servicer of wind turbines), Orsted (a Danish developer, constructer and operator of wind farms), TPI Composites (the world's largest independent turbine blade manufacturer) and Prysmian (a global leader in cables for the renewable energy and telecoms sectors). Investment trusts **JLEN Environmental Assets** and **The Renewables Infrastructure Group**, which own renewable energy infrastructure assets, may be encouraged to shift their focus from onshore wind farms in order to invest in the growth of the offshore wind industry.

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