SUSTAINABLE WORLD INVESTORS' REPORT

SPRING 2021

COP26 COMES INTO VIEW

A very warm welcome to the Sustainable World Investors' Report covering the first quarter of 2021. Hawksmoor's Sustainable World portfolios allow investors the opportunity to align their investment objectives with supporting the United Nations Sustainable Development Goals. These Investors' Reports are sent to Sustainable World clients alongside their quarterly investment valuations, and are now also distributed to selected Financial Advisers and other intermediaries. Each quarter we introduce the sustainability credentials of a fund eligible for inclusion in Sustainable World portfolios, highlight some sustainability items in the news, and on this occasion conclude with a look at both short-term performance and the four-year track record of an illustrative Hawksmoor Sustainable World portfolio.

Following very successful years for sustainable investment in 2019 and 2020, 2021 has got off to a more challenging start due to an investment style headwind for many equity funds (as outlined on page 4). Nonetheless, sustainability remains very much in focus, and 2021 is a very important year in this regard with COP26 taking place in Glasgow in November - the 26th major UN climate change conference. Hosting COP26 is a great opportunity for the UK to show leadership on climate change.

This quarter's Fund Focus is on **Aegon Ethical Corporate Bond**, a straightforward sustainable fixed income fund which has been on our Buy list for potential inclusion in Sustainable World portfolios since February 2017. Elsewhere, during the first quarter of 2021 we have seen a good level of investment in three sustainable funds added to our Buy list just before Christmas 2020 - **Baillie Gifford Responsible Global Equity Income**, **Ninety One Global Environment** (last quarter's Fund Focus) and **Foresight Sustainable Real Estate Securities**.

James Clark

Emily Cave

"As important as 2020 was, 2021 is shaping up to be even more pivotal. The 2015 Paris Agreement requires signatories to revisit their national greenhouse gas reduction targets every five years. Many did not achieve this in 2020 due to the COVID-19 pandemic ... It is not an understatement to say that the scale of these commitments will determine whether or not the planet has any realistic chance of avoiding warming of more than two degrees."

Seb Beloe, Head of Research at WHEB Asset Management, January 2021 blog post

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Aegon Ethical Corporate Bond

This fund was launched by the fixed interest team at Kames Capital (as it was then called) in 2000 and is now co-managed by Iain Buckle and Euan McNeil. It is managed on a total return basis, whereby capital growth and income generation are equally important, using a very straightforward investment process. The co-managers invest only in Sterling-denominated bonds – they don't take on any currency exposure, nor hold any convertible bonds or equities – and they focus on investment grade corporate bonds (rated BBB or above), with a maximum of 10% of the portfolio in sub-investment grade bonds. This is a very 'plain vanilla' portfolio. Its sensitivity to movements in interest rates is maintained at a broadly similar level to that of its benchmark.

Aegon's small range of ethical funds is formed of this fund, a UK equity fund and a cautious managed fund (including both equities and bonds), all of which benefit from the work of a small Edinburgh-based environmental, social and governance (ESG) research team, which is now part of Aegon's global responsible investment team. A very comprehensive negative screening process covers 11 categories (e.g. gambling, nuclear power, genetically modified products), negating investment in bonds issued by companies operating in these sectors. Importantly, an 'arms-length' relationship exists between the global responsible investment team (responsible for screening and taking the lead on engaging with companies) and Aegon's fund managers – the latter cannot influence which companies pass the screening process. The team also attempt to address positive aspects of the portfolio (on top of the very comprehensive negative screening process), highlighting investment in green bonds, sustainability bonds and social bonds with proceeds ring-fenced for specific purposes, as well as bonds issued in sectors such as social housing and renewable energy (as shown below). More emphasis is now placed on this positive approach.

Aegon Ethical Corporate Bond is well diversified, has a consistent performance record, and we believe it is suitable for a wide range of client portfolios.

AEGON Asset Management

Social Housing	ESG-labelled bonds	Public Transport	Development Banks	Renewable Energy
7.0% of NAV	11.7% of NAV	6.9% of NAV	2.4% of NAV	2.5% of NAV
Great Places Housing	Clarion Housing	Transport for London	KfW	TC Dudgeon OFTO
Accent Housing	Bazelgette	Deutsche Bahn	World Bank	Greater Gabbard OFTO
LiveWest Housing	Yorkshire Water	National Express	Asian Infrastructure Bank	Orsted
WM Housing	Anglian Water			SSE Hydro Electric
Incommunities Housing	Severn Trent			
Aster Housing	Orsted			
Paragon Housing	Pearson			
	World Bank			
	Tritax Big Box			
	Assura			

(Source: Aegon Asset Management, as at 12th February 2021)

Iain Buckle and Euan McNeil, Fund Managers

SUSTAINABILITY IN THE NEWS

Within the Hawksmoor Research team's daily internal email we highlight sustainability items in the news along with developments in the sustainable investment universe. Here we present a select number of snippets from the first quarter of 2021.

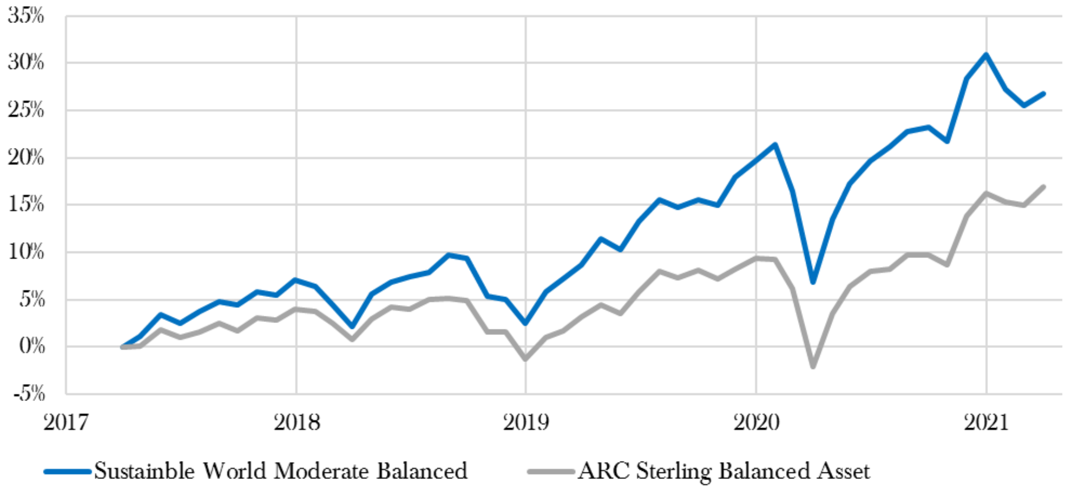
20th January: Research by Centrica has found that the average local council in the UK will have just 35 on-street electric vehicle charging points by 2025. Centrica sent Freedom of Information requests to over 400 local councils, asking how many on-street EV charging points they currently have and how many they plan to have in place by 2025. The findings included a current total of 7,682 charging points and 9,317 planned installations – thus more than doubling the number of on-street charging points over the next 4 years, but still leaving an average of just 35 per local council. 126 councils said they have no firm plans to install any further on-street EV charging points by 2025. The implication of all this is that car owners without a driveway and/or garage (thus without access to home charging) are dis-incentivized to switch to an electric vehicle. (Source: www.edie.net, as at 20th January 2021)

17th March: We offer a quick look at the highlights of China's 14th Five-Year Plan in terms of sustainability. The context is that last September Chinese leader Xi Jinping announced the targeting of net zero carbon emissions by 2060 and ensuring that greenhouse gas emissions peak within the next decade. 'New progress of ecological civilisation' is one of the six overarching economic and social development goals of the 14th Five-Year Plan, presented earlier this month. The clearest binding requirements are a 13.5% reduction in 'energy intensity' (energy consumption per unit of GDP) over 2021-25 and an 18% reduction in 'CO2 emissions intensity' (CO2 emissions per unit of GDP). Morgan Stanley notes that the former is less ambitious than the 15% reduction targeted by the previous Five-Year Plan, but that target was exceeded by a 17.9% reduction. The CO2 emissions intensity target is the same as in the previous Five-Year Plan. Note that these targets are per unit of GDP, so in absolute terms energy consumption and CO2 emissions could still rise as the economy grows. For 2021-25 there are also small increases in targets for the percentage of days with 'good' air quality in cities (from 87% to 87.5%), the percentage of surface water at or above a class 3 rating (from 83.4% to 85%), and the forest coverage rate (from 23.2% to 24.1%). Nuclear power capacity is targeted at 70GW by 2025, up from 58GW in the previous Five-Year Plan, and there's an increase in the proportion of non-fossil-fuel energy within total consumption, to around 20% by 2025 from 15.8% in 2020, but this is an 'indicator' rather than a binding requirement. (Source: www.theguardian.com, as at 17th March 2021)

25th March: A new report called 'The state of plastic recycling – steps toward a circular economy' has shed further light on attitudes towards and habits in recycling plastic in different countries. Packaging manufacturer Hi-Cone, which makes items including ring carriers for multi-packs of beverage cans, commissioned YouGov to survey 5,000 adults across the UK, the US, Spain and Mexico, with an equal proportion of respondents from each nation. 75% of respondents said they regularly recycle at home, but 32% of respondents believe that 25% or less of what they put in recycling bins is actually recycled. An encouraging 61% of respondents recycle 75% or more of their plastic waste, but only 37% recycle *all* of their plastic waste. Of those who don't recycle all plastic, 80% would do so more regularly if they had more facilities and/or guidance on doing so. Moving on to the notion of a circular economy, only 31% of respondents across all nations had any level of confidence that they understand the term 'circular economy'. Therein, and perhaps surprisingly, Spain (39%) and Mexico (35%) had the highest levels of understanding, followed by the US (33%), with the UK (23%) exhibiting the lowest level of understanding. Focusing on the UK, when asked who should be responsible for the effective recycling of plastics, product manufacturers and plastic producers were the most commonly selected stakeholders (by 64% of respondents), followed by national government (57%), local government (54%) and the consumer themselves (53%). (Source: https://hi-cone.com/sustainability/, as at 25th March 2021)

PERFORMANCE

Hawksmoor Sustainable World Moderate Balanced performance since launch (01/03/2017)



(Source: Hawksmoor Research, as at 31st March 2021)

The above chart shows the performance of an *illustrative* Hawksmoor Sustainable World portfolio at a Moderate risk level with a Balanced investment objective. This portfolio represents internal guidance for our Investment Managers when constructing Sustainable World portfolios. From inception at the start of March 2017 until the end of March 2021 this illustrative portfolio has provided a total return of 26.8%, against a return of 16.9% from its ARC Sterling Balanced Asset PCI comparator. We are very pleased to pass through the fourth anniversary of managing this Sustainable World illustrative portfolio.

In the first quarter of 2021 this illustrative portfolio was flat against a return of 1.1% from the ARC comparator. This quarter and the preceding quarter presented an investment style headwind for many of the equity funds held within Hawksmoor Sustainable World portfolios. Since last November's positive news on Covid-19 vaccines, rotation within equity markets in favour of companies more exposed to economic recovery has been a relative headwind for strategies more exposed to quality growth companies and sustainable themes. For example, **Baillie Gifford Positive Change**, which performed superbly in 2020 (up 80.1%), was relatively weak in the first quarter of 2021 (down 1.9%), whilst the valuation-conscious strategy of **EdenTree Responsible & Sustainable Global Equity** (up 6.3%) fared very well indeed. Within UK Equities, **Janus Henderson UK Responsible Income** (up 5.4%) was our top performer, whilst in Alternative Assets, **SDCL Energy Efficiency Income Trust** (up 6.5%) stood out.

Chart methodology: Performance is quoted on a total return basis, gross of an Annual Management Charge and based on an internal illustrative portfolio of funds typical of those bought for clients within the Hawksmoor Sustainable World Discretionary Portfolio Management Service since launch in March 2017.