SUSTAINABLE WORLD INVESTORS' REPORT

SUMMER 2021

Welcome to the Sustainable World Investors' Report covering the second quarter of 2021. Each quarter we focus on a fund eligible for inclusion in Sustainable World portfolios, highlight some sustainability items in the news (notably President Biden's plans to cut US emissions), and on this occasion conclude with a look at a controversial company that is not held within any of our chosen sustainable equity funds.

This quarter's Fund Focus is on **Gresham House Energy Storage**, with a look at the development of the UK's battery storage capacity. This is an investment trust which has been on our Buy list since November 2020, and is an appropriate holding within Hawksmoor's Sustainable World Discretionary Portfolio Management Service.

The past three months have seen considerable progress made both on and off financial markets in the world of sustainability. The corporate world is rapidly adapting to both the need to decarbonize and the benefits to share prices that potentially come with ESG leadership. The biggest disappointment for us was June's meeting of the G7 at Carbis Bay. An ideal opportunity to establish the UK's dynamic leadership in driving decarbonisation was mostly spurned, with the can kicked down the road to the meeting of COP26 in Glasgow in November. The risk, and our fear, is that too many countries are interested in creating greenwashing soundbites, rather than taking positive action to decarbonize and control temperatures. However, May's decision by the District Court in The Hague that Royal Dutch Shell must cut its emissions faster than planned in order to comply with the 2015 Paris Climate Change Agreement is of huge importance.

We are very pleased that Hawksmoor has been shortlisted in the Best Ethical Discretionary Fund Manager category at the 2021 Investment Life & Pensions Moneyfacts Awards. James was also asked to be a judge for four categories of the Investment Week Sustainable & ESG Investment Awards 2021, which Hawksmoor has also entered in two different categories.

James Clark

Emily Cave

"The practice of destroying unsold stock isn't really new. Fashion companies have long been known to burn unsold or returned stock. In fact, most corporations making consumer products have a major problem with overproduction and oversupply – often leading to shockingly wasteful practices ... while the environmental impacts of destroying unused stuff are mind-boggling, what's really scary is what this says about our society – how we value things, and workers, and how we help people in times of need."

Source: Greenpeace, Helle Abelvik-Lawson, June 2021 extract from blog about Amazon

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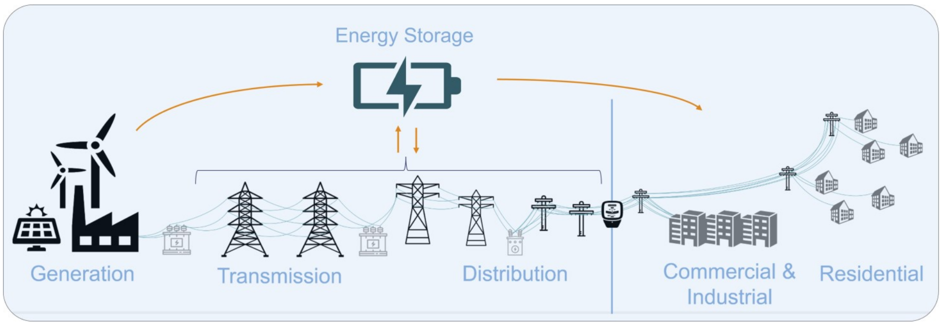
Gresham House Energy Storage

Gresham House Energy Storage is an investment trust with a portfolio of battery storage facilities. As renewable energy sources continue to increase as a proportion of power generated in the UK, the intermittency of supply increases (for example, solar and wind power generation are weather-dependent) and intraday price spreads have increased (the difference between the lowest-priced power and the highest-priced power in a single day). Battery storage facilities are necessary to assist National Grid in maintaining the balance of supply and demand in real time.

Gresham House Energy Storage earns revenue from three sources – Frequency Response (real-time power balancing for National Grid), Trading (taking advantage of intraday price spreads to buy power at times of excess supply and sell power at times of high demand) and Capacity Mechanism (long-term contracts to meet extremes of demand). Frequency Response accounted for 76% of portfolio revenue in 2020, with Trading contributing just 10%, however Trading is expected to account for a much greater proportion of portfolio revenue over the long term as price volatility rises, linked to increased renewable generation. The trust is not directly exposed to the absolute level of power prices, rather their volatility. Furthermore, the Gresham House team have added significant value through the ability to quickly switch different battery storage facilities between different sources of revenue.

Launched in November 2018, this trust targets 8% total returns per year (income and capital growth) on a Net Asset Value basis, including a target dividend of 7p per share. It is managed by the experienced pairing of Ben Guest and Rupert Robinson. At the end of April 2021 the trust's portfolio comprised 17 projects with 425MW of capacity, plus a pipeline of a further 13 projects with estimated capacity of 375MW. A small amount of construction risk may be taken on, which is a source of growth in Net Asset Value. Furthermore, costs are falling due to economies of scale, technological developments, lower grid connection costs and lower insurance costs. The sustainability credentials of Gresham House Energy Storage are strong, with battery storage facilities supporting renewable power generation in the UK and the broader decarbonisation agenda.



Since 1857
Gresham House
Specialist asset management

(Source: Gresham House, 2021)

Ben Guest (Fund Manager) and Rupert Robinson (Managing Director)

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 second quarter of 2021.

21st April: The Prime Minister has announced a substantial increase in the UK's headline emissions reduction target – a 78% reduction in emissions by 2035, relative to 1990 levels. The new target should become enshrined in law by the end of June. This comes on the back of advice from the independent Climate Change Committee – more specifically this is the 'sixth carbon budget' covering the period 2033-37, hence the targeting of 2035 as a mid-point. The UK's share of international aviation and shipping emissions is factored into the headline target for the first time. The Climate Change Committee continues to advise that up to £50bn per year of low carbon investment is required to meet the updated target. It is not yet clear if this updated 78% reduction target will transpose to the UK's 'nationally determined contribution' towards the Paris Agreement – this may well be the case in the coming weeks. (Source: www.bbc.co.uk/news, as at 20th April 2021)

26th April: President Biden has committed the US to cutting emissions by 50-52% by 2030, relative to 2005 levels. At a virtual meeting of some 40 world leaders to mark Earth Day, Biden said the new commitment will set the US on a path to net zero emissions by 2050, and called on other countries to raise their ambitions in this respect. 'Particularly those of us that represent the world's largest economies, we have to step up ... Let's run that race, win a more sustainable future than we have now, overcome the existential crisis of our time'. The Biden administration has also outlined a new plan to double the amount of US funding for developing countries struggling to adapt to climate impacts; wants the US electricity grid to run on 100% renewable sources by 2035; and is framing the latter as a boon for the US employment market. At the same virtual meeting, new commitments also came from Japan (to cut emissions by 46% by 2030, relative to 2013 levels), South Korea (to stop financing overseas coal projects) and Canada (to cut emissions by 40-45% by 2030, relative to 2005 levels). (Source: www.bbc.co.uk/news, as at 25th April 2021)

20th May: A report by EY has ranked the UK fourth in the world for the attractiveness of renewable energy opportunities. The consultancy's (formerly Ernst & Young) bi-annual Renewable Energy Country Attractiveness Index, which is based on the performance of renewable energy markets in relation to investment opportunities, sees the UK continue its upward trajectory from eighth in the May 2019 rankings to fourth in May 2021. The UK's improved ranking is attributed to the continued roll-out of offshore wind development and battery storage projects. The three countries ahead of the UK remain the US (where renewable energy opportunities are expected to be plentiful under President Biden), China (huge growth in onshore wind and solar projects) and India (record growth in renewable energy capacity is expected in both 2021 and 2022), and as such it seems unlikely that the UK will break into this top three. Australia and Germany are the fall guys for the UK's rise in the rankings, now ranked sixth and seventh respectively. (Source: www.edie.net, as at 19th May 2021)

9th June: Yesterday was World Ocean Day, which has been organised on 8th June each year since 2003 by The Ocean Project and has been officially recognised by the United Nations since 2008. The day is all about encouraging the collective conservation of oceans, with the organisers encouraging the establishment of local events ranging from beach clean-ups and educational sessions to ocean-themed art exhibitions and film screenings. In 2019 (pre-pandemic) over 2,000 events were held in over 140 different countries. Pledges and commitments also feature prominently, such as UK government plans revealed yesterday to introduce a new category of protected areas around the British coastline. Existing Marine Protected Areas (covering 38% of UK waters) will be supplemented by Highly Protected Marine Areas, where all potentially damaging (for wildlife or habitats) activities will be banned. (Source: www.edie.net, as at 8th June 2021)

In June, ITV News reported on the huge quantities of unsold stock being destroyed each week at Amazon's fulfilment centre in Dunfermline in Scotland. Undercover filming showed products ranging from books and facemasks to hairdryers and televisions sitting in boxes marked 'destroy', whilst accompanying testimony from a former employee revealed targets to destroy up to 130,000 items per week. The whistle-blower stated that around half of these items are unsold, unopened products still in their original packaging, whilst the other half are products that have been returned by customers, in good condition. Undercover filming showed an electronic document covering a 7 day period with over 124,000 items marked 'destroy', accompanied by 28,000 items marked 'donate'. ITV News tracked lorries carrying electrical products from Amazon to a nearby recycling centre, and tracked non-electrical products being transported to a landfill site. Amazon has 24 such fulfilment centres in the UK.

We were shocked and saddened to learn of such huge quantities of waste. All of these products could in theory have been either sold as usual, returned to manufacturers, sold at a discount with the proceeds donated to charity, or donated directly to charity. ITV News suggested that this situation has arisen because when third-party vendors house their products in Amazon warehouses, they pay a greater fee to do so the longer a product remains unsold, meaning that it can become uneconomical to continue storing stock.

Amazon is not held in any of our chosen sustainable equity funds, whether global or thematic in nature. Broadly speaking, Amazon either fails a fund management group's screening processes or doesn't fit with the positive impact themes that they're pursuing. For example, the screening process of **EdenTree** (we invest in four of this specialist group's Responsible & Sustainable fund range) negates Amazon due to multiple labour, tax and supply chain controversies. **BMO Responsible Global Equity** used to own Amazon but sold the holding around 18 months ago due to a lack of engagement from the company. Such a holding doesn't fit for **Ninety One Global Environment** due to the company not generating at least 50% of its revenue from one of the team's three structural growth themes (renewable energy, electrification and resource efficiency). Likewise, Amazon doesn't fit for **WHEB Sustainability** due to not providing a solution to sustainability challenges (i.e. not fitting with one of this specialist group's nine positive impact themes). We will always question fund managers on controversial holdings such as Amazon.