



Welcome to the Sustainable World Investors' Report covering the third 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 the UK's inaugural 'green gilt' issue), and on this occasion conclude with a look at the performance of an illustrative Hawksmoor Sustainable World portfolio.

This quarter's Fund Focus is on Janus Henderson UK Responsible Income, a fund that has been on our Buy list since February 2017 and is an important building block of UK equity fund exposure within our portfolios. Income-oriented strategies had a tough time during the third quarter of 2021, however as we explore in the Performance section on page 4, overall this year is shaping up to be another good one for sustainable investment, led by International Equities and supported by a meaningful contribution from Alternative Assets.

The main event this year was always set to be the COP26 climate change conference in Glasgow in November. There has been, and will continue to be, much noise in the run-up to this crucial gathering, and following our disappointment over the lack of meaningful outcome from the G7 gathering at Carbis Bay in June, we want to see countries coming forward with more ambitious national emissions reduction targets. Indeed, a very recent Climate Transparency report stated that despite the rise in national net-zero targets, at the current rate of progress the world looks set for a 2.4 degrees warming scenario by the end of this century, as G20 nations are on course to surpass both the 1.5 degrees and 2 degrees warming scenarios of the Paris Agreement. The time to act – not just talk about acting – is now.

James was pleased to serve as a judge for three categories of the Investment Week Sustainable & ESG Investment Awards 2021. We were also very pleased that Hawksmoor was shortlisted in the Best Ethical Discretionary Fund Manager category at the 2021 Investment Life & Pensions Moneyfacts Awards.



James Clark



Emily Cave

"It is leaders who made a promise to the world in Paris six years ago. And it is leaders that must honour it. Responsibility rests with each and every country. And we must all play our part. Because on climate, the world will succeed, or fail as one"

COP26 President Alok Sharma, UNESCO, Paris, October 2021.
Source: en.unesco.org/news/



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Janus Henderson UK Responsible Income

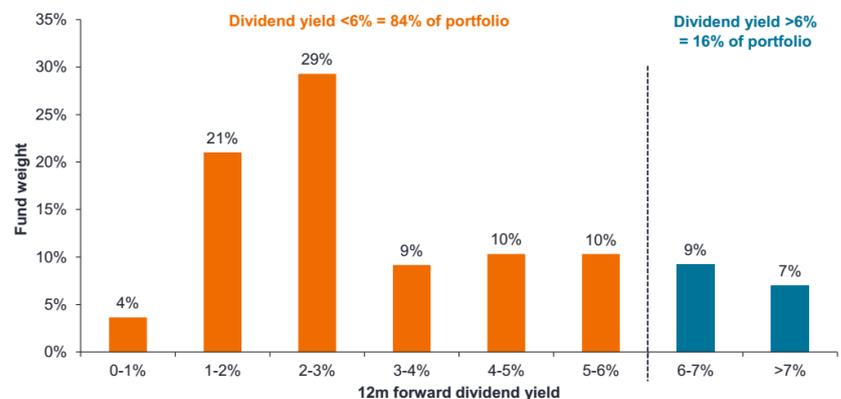
Janus Henderson's small range of responsible funds is formed of this fund, a global equity fund (which Hawksmoor also invests in) and a managed fund (including both UK and overseas equities and bonds), all of which benefit from the work of an in-house governance and responsible investment (GRI) team. These funds, formerly branded as Global Care, are well established – Janus Henderson UK Responsible Income is now just over 25 years old, having launched in June 1995, and come January 2022 its manager Andrew Jones will have been at the helm for 10 years.

Jones' portfolio typically holds 60-75 predominantly large companies, and tends to have a low level of turnover. The manager aims to outperform unrestricted UK equity peers over the long term whilst generating a good level of income – the maintenance of dividends is very important. Therein, he focuses on 'dividend growers' (companies with 2-6% dividend yields) over 'dividend yielders' (companies with yields above 6%) due to the much greater reliability of the former. A comprehensive negative screening process, which has been enhanced in recent years, currently covers 13 categories of exclusions (e.g. armaments, oil and gas extraction, genetic engineering) under the headings of impacts on people, the environment and animals. The portfolio has a much lower carbon footprint than its broad UK equity market comparator, which is an outcome of the process rather than an objective of the fund.

The manager does try to offset what he can't own (e.g. oil and gas companies) with stocks and sectors that he can own – which links with periodically utilizing an allowance to hold up to 20% of the portfolio in companies based outside the UK. Doing so during the Covid-19 crisis was an important factor in the fund only seeing a 13% distribution cut over the 12 months to the end of March 2021 – not a bad outcome relative to peers and the wider UK equity market. Janus Henderson UK Responsible Income has a consistent performance record over time.



Janus Henderson
INVESTORS



(Source: Janus Henderson Investors, 2021)

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 third quarter of 2021.

8th July: It was reported that Royal Dutch Shell and Rolls Royce have signed a memorandum of understanding to develop sustainable aviation fuel for commercial use. This has an estimated 70% net reduction in greenhouse gas emissions per tonne relative to conventional jet fuel. It is understood that this MoU will build on existing partnerships between the two companies, with progress towards respective net-zero targets being a key angle to this (RDS: by 2050, RR: operationally by 2030, across the whole business by 2050). Details are thin on the ground at this stage, but Rolls Royce wants to ensure that all jet engines supplied for commercial use can be run on 100% sustainable aviation fuel from 2023. There are only two slight issues here – regulation (at present only biofuel blends of up to 50% (with the remainder being conventional jet fuel) are allowed to be used) and supply (lacking). (Source: www.renewablesnow.com, as at 5th July 2021)

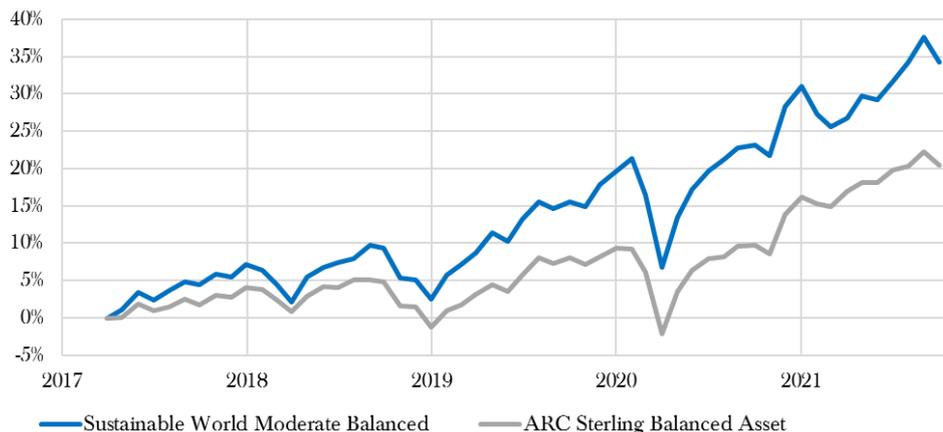


7th September: In the run-up to COP26, even the Premier League is trying to do its bit from a sustainability perspective, aiming to host the world's first net-zero carbon football match at an elite level. When Tottenham Hotspur host Chelsea in the Premier League on Sunday 19th September, this will be branded #GameZero, with carbon emissions associated with the match reduced by as much as possible and the remainder offset. Energy usage, travel to and from the stadium (by both teams and fans) and catering arrangements are key areas of focus. As well as achieving the net-zero carbon feat in its own right, this initiative is all about raising awareness of climate change and encouraging fans and other clubs to reduce their carbon footprints. Sky has been stepping up its own efforts in this respect (and is a headline sponsor and media partner of COP26), whilst earlier this year Spurs were named as the Premier League's 'greenest' club, scoring maximum points across eight categories (from clean energy and energy efficiency to offering plant-based/low-carbon food) and just pipping Arsenal, Brighton and Manchester United to this title. (Source: www.edie.net, as at 6th September 2021)

20th September: An academic study has linked climate-related anxiety and distress amongst young people with perceived government inaction on climate change. This is believed to be the first study to make this link, and it comes from research by a group of academics at the University of Bath, Stanford Medicine Centre for Innovation in Global Health, Oxford Health NHS Foundation Trust and other institutions. They surveyed 10,000 young people aged 16-25 across 10 countries (both developed and developing), with the headline findings of 45% being affected by climate anxiety and distress and 75% believing that 'the future is frightening'. Just let that sink in for a second – three-quarters of young people believe that their future is frightening. 58% believe governments are 'betraying me and/or future generations', 65% believe governments are failing young people, whilst 55% believe they will have fewer opportunities than their parents because of inaction on climate change. Ultimately, 83% believe that people have failed to care for the planet. (Source: www.edie.net, as at 17th September 2021)



22nd September: The UK (finally) issued its first green gilt – a £10bn issue maturing in July 2033, which came at a yield of just 0.87%. This inaugural green gilt issue was ten times oversubscribed, attracting more than £100bn worth of bids. The UK Debt Management Office believes that this was the largest inaugural green issue by any sovereign, with the largest (to date) order book for a sovereign green issue. It came within a pledge to raise a minimum of £15bn from green gilt issuance this year, so there should be another issue soon (perhaps next month), and also came within the government's Green Financing Framework published this summer, which set out the use of proceeds from green gilt issuance. These are clean transport, energy efficiency, renewable energy, pollution prevention and control, living and natural resources, and climate change adaptation. The DMO must also go on to report on the environmental and social impacts of this financing – as with green corporate bonds (or social bonds, or sustainability bonds), the issuer cannot just say that proceeds will be used for environmentally and socially positive purposes, without subsequently reporting on the use of those proceeds. (Source: www.gov.uk, as at 21st September 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 September 2021, this illustrative portfolio has provided a total return of 35.2%, against a return of 21.1% from its ARC Sterling Balanced Asset PCI comparator. We are pleased with the four and a half year track record of this Sustainable World illustrative portfolio.

In the third quarter of 2021, this illustrative portfolio was up 1.9% against a return of 0.3% from the ARC comparator. Sustainable Fixed Income funds largely provided small negative returns as bond yields rose during September, but Alternatives fared better, led by investment trusts **Gresham House Energy Storage** (up 9.9%) and **JLEN Environmental Assets** (up 9.3%). The investment style headwind which affected many of the equity funds held within Hawksmoor Sustainable World portfolios during the fourth quarter of 2020 and the first quarter of 2021 (as rotation within equity markets favoured companies more exposed to economic recovery – a relative headwind for strategies more exposed to quality growth companies and sustainable themes) is now felt to be in the rear view mirror. UK Equities funds delivered good returns during the quarter, led by Royal London Sustainable Leaders Trust (up 4.9%), although income-oriented strategies had a tougher time, as evidenced by **Janus Henderson UK Responsible Income** (down 0.2%). International Equities funds also delivered good returns, with all of our selections outperforming the IA Global sector average, led by **Impax Environmental Markets Trust** (up 9.1%) and **Baillie Gifford Positive Change** (up 6.0%).

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.

IMPORTANT INFORMATION

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