



Welcome to the Sustainable World Investors' Report covering the fourth quarter of 2021. Each quarter we focus on 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 the 2021 performance of an illustrative Hawksmoor Sustainable World portfolio.

This quarter's Fund Focus is on Atrato Onsite Energy, a recently launched investment trust with a portfolio of commercial rooftop solar assets. Please note that investment trusts can be held within Hawksmoor's Sustainable World Discretionary Portfolio Management Service, but not within our Sustainable World Model Portfolio Service.

Preceding COP26, the UK government's Net Zero Strategy announcement in October sought to fill in the gaps within the commitment to reach net zero emissions by 2050. The main event of 2021 from a sustainability perspective was always set to be COP26, which took place in November. Whilst the Glasgow Climate Pact was agreed, there wasn't much progress on the crucial issue of cutting emissions in the short-term (by 2030) – countries will meet again in 2022 with updated Nationally Determined Contributions aligned with limiting global warming to 1.5 degrees by 2100. An agreement to 'phase out' the burning of coal was watered-down to 'phase down' following a last-minute intervention by China and India. Developed countries finally agreed to meet their Paris Agreement commitment to provide \$100bn per annum of funding to developing countries for climate change mitigation and adaptation.

Also at COP26, 110 countries (covering around 85% of the world's forests) promised to end deforestation by 2030, importantly including Brazil, Indonesia, the Democratic Republic of Congo, Russia and China; over 100 countries agreed to cut methane emissions by 30% (from 2020 levels) by 2030 (although major emitters China, Russia and India haven't yet joined); and India committed to reaching net zero emissions by 2070. Overall, one's glass could be either half full or half empty regarding COP26, but much work on reducing emissions remains to be done.

“Climate change is not only a threat, it is, above all, an opportunity to create a healthier, greener, and cleaner planet which will benefit all of us. We must seize this opportunity.”

Climate activist Greta Thunberg, Milan, Youth4Climate Pre-COP26, 30th September 2021 (Source: [www.globalcitizen.org](http://www.globalcitizen.org))



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Hawksmoor Sustainable World illustrative portfolio



**James Clark**



**Emily Cave**

## Atrato Onsite Energy

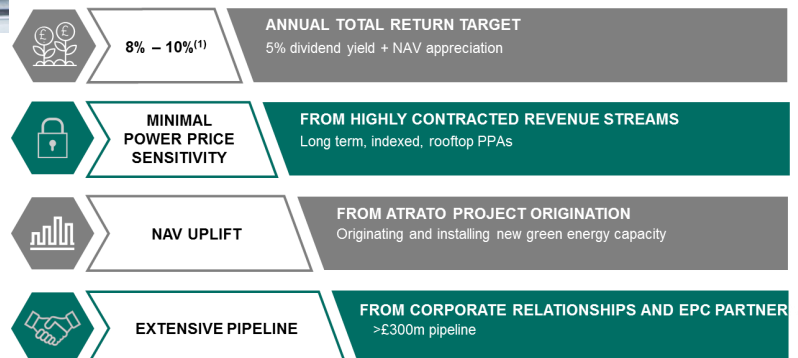
Atrato Onsite Energy is an investment trust with a portfolio of commercial rooftop solar assets. Atrato Partners is an investment firm which manages Supermarket Income REIT (in which Hawksmoor also invests), and from installing solar panels on the roofs of the supermarkets owned in that portfolio sprang an opportunity to broaden out this part of the proposition and install solar panels on properties such as industrial, utility and food supply chain premises as well as supermarkets. This opportunity required technical and renewable energy expertise within the Atrato Partners team, and so experienced managers Gurpreet Gujral, Francisca Wiggins and Jon Ashford were recruited to initiate and manage what became Atrato Onsite Energy.

Launched in November 2021, the trust originates, installs and manages commercial rooftop solar assets which supply their hosting properties with onsite electricity generation without relying heavily on the electricity grid. Onsite generation is significantly cheaper for customers than sourcing electricity from the grid (although the assets won't supply 100% of customers' electricity needs, at least not initially), and the renewable nature of this electricity generation helps customers to meet their own net zero carbon emissions targets. The traceability of customers' electricity supplies is also much improved. Long term, fixed price, inflation-linked (with uncapped indexation) power purchase agreements mean that the trust's sensitivity to wholesale power prices is low, which is an attractive feature.

Atrato Onsite Energy targets a total return of 8-10% per annum (comprising capital growth and income) including 5% by way of income. Returns may well be 'front-loaded' in the early stages of the trust's life as discount rates (used when valuing assets) are reduced as pre-operational assets develop into contracted operational assets. Furthermore, once solar panels are installed on the roof of a property, the Atrato Partners team can explore supplying the customer with further options such as solar carports, charging for light delivery electric vehicles and battery storage units – options which can both generate further revenue streams and strengthen relationships with customers. Atrato Onsite Energy is a strong proposition from both a financial and a sustainability perspective.



(Source: Atrato Partners, 2022)



Gurpreet Gujral, Francisca Wiggins and Jon Ashford



*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 fourth quarter of 2021.*



**27th October:** In the wake of the government's Net Zero Strategy announcement, a survey of 1,200 small and medium-sized enterprises (SMEs) conducted by the British Business Bank (BBB) this summer reveals the on-the-ground reality. This is important because SMEs (companies with fewer than 250 employees) account for an estimated 43-53% of UK greenhouse gas emissions. The headline finding was that 76% of SMEs are yet to implement comprehensive decarbonisation strategies. Within 'awareness and engagement', many companies have started the journey but most remain at an early stage. Nearly 60% are reasonably aware of the key concepts surrounding net zero, but 53% are not yet ready to prioritise decarbonisation. Within 'knowledge and capabilities', 56% of SMEs reported no action having been undertaken in this area – only 3% have both measured their carbon footprint and set targets for reduction. Under 'physical actions undertaken', 94% have taken at least one simple action. Overall, the BBB has classified the responding SMEs as 'carbon nimble' (38%; a proactive attitude to emissions reduction), 'carbon complacent' (34%; not treating emissions as a priority), 'carbon correcting' (9%; in higher-emission sectors but showing higher 'transition maturity') and 'carbon exposed' (18%). (Source: [www.edie.net](http://www.edie.net), as at 20th October 2021)

**23rd November:** The Prime Minister has announced that all new homes and workplaces built in England from next year will need to have electric vehicle charging points as standard. New residential housing, office blocks and retail sites, plus renovations and developments with 10 or more parking spaces, will face the requirement to install EV charging points. The government will run a consultation before an exact implementation date in 2022 is confirmed. The UK currently only has about 25,000 charging points, whilst the Competition and Markets Authority has estimated that the country could need 10 times as many by 2030. That's the (brought forward) date from which the sale of new petrol and diesel cars will be banned, whilst the government itself estimates that this new installation requirement will see up to 145,000 charging points installed each year out to 2030. (Source: [www.bbc.co.uk/news](http://www.bbc.co.uk/news), as at 22nd November 2021)

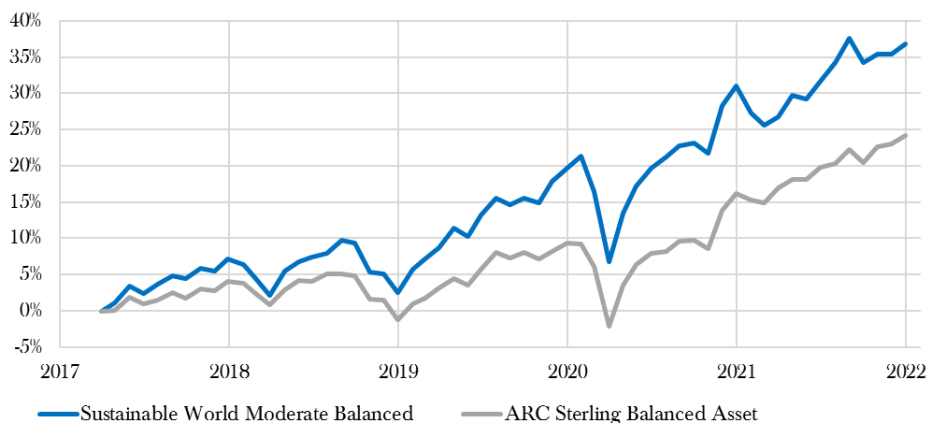


**6th December:** Environmental groups will be celebrating Royal Dutch Shell's decision to pull out of the proposed Cambo oil field development 80 miles west of the Shetland Islands. This is a significant move as Cambo has the potential to deliver up to 170 million barrels of oil equivalent over 25 years and a further 53.5 billion cubic feet of gas, according to majority owner Siccar Point Energy, an exploration and production firm. The UK government was facing a legal challenge from Greenpeace over its decision to allow the Cambo development to go ahead, whilst ClientEarth had written to business secretary Kwasi Kwarteng warning against approving new projects, both in light of the UK's legally-binding net zero 2050 target. Shell's citing of a weak economic case as its reason for deciding not to go ahead with the project may be a smokescreen for the public and political pressure surrounding this proposed development. Siccar Point Energy unsurprisingly remains keen on Cambo, citing the 'better the devil you know' argument in that 'responsibly produced domestic oil' is better than less scrupulous production elsewhere in the world. (Source: [www.bbc.co.uk/news](http://www.bbc.co.uk/news), as at 2nd December 2021)



**14th December:** McDonald's has opened the UK's first net zero carbon restaurant. The restaurant in Market Drayton in Shropshire was designed to be net zero emissions standard in both construction and everyday operation. How so? The site has two wind turbines and 92 square metres of solar panels, sufficient to produce 60,000 kWhs of power per year. The building is insulated with reclaimed British sheep's wool and clad with 250 square metres of recycled e-waste and white goods parts. The drive-thru lane was constructed using recycled tyres and surrounded by kerb 'stones' made using over 200,000 plastic bottles in total. The car park features electric vehicle charging points, adjacent to which is a biodiversity garden (collecting rainwater from the car park) and nature trail designed by local schoolchildren. Moving inside, furniture is made from 100% recyclable materials, wall signs are made from used coffee beans, and wall art is made from recycled polystyrene cups, fixed in place with potato starch. Overall, this is more than a feel-good story from the UK arm of the world's largest fast-food restaurant chain. (Source: [www.edie.net](http://www.edie.net), as at 10th December 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 December 2021, this illustrative portfolio has provided a total return of 37.9%, against a return of 24.8% from its ARC Sterling Balanced Asset PCI comparator. We look forward to reaching a five-year track record.

In the fourth quarter of 2021 this Sustainable World illustrative portfolio was up 2.7% against a return of 2.5% from the ARC comparator, whilst for 2021 overall the illustrative portfolio (up 8.7%) also outperformed its comparator (up 7.9%). For the year as a whole, returns from Global Equities funds were not as strong as in the two previous years but our selections still delivered returns of 10-20%, with the positive outlier being **Impax Environmental Markets Trust** (up 30.1%). UK Equities funds faced relative headwinds as sectors of the market such as Energy and Financials (where sustainable funds typically have little or no exposure) performed strongly, although our selections ranging from **Troy Trojan Ethical Income** (up 12.3%) to **Royal London Sustainable Leaders Trust** (up 22.3%) still delivered very respectable returns. Fixed Income funds largely provided small negative returns, as evidenced by **Rathbone Ethical Bond** (down 0.4%). Alternative Assets continued to be an important source of returns for this illustrative portfolio, led by **Gresham House Energy Storage** (up 23.0%), **SDCL Energy Efficiency Income Trust** (up 15.9%) and latterly **Foresight Sustainable Real Estate Securities** (up 26.1%, or 11.6% since its addition to this portfolio on 08/10/21).

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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