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# **ESG** Review

Hawksmoor Sustainable World Portfolios

**Moderate Strategy** 

December 2021



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# **ESG** Review

Hawksmoor Sustainable World Moderate Portfolio Fraser Donaldson



### Key facts

- Generalist ESG portfolios, focusing on sustainability whilst understanding that negative exclusions and a level of impact investing will naturally occur. Diversification and risk management will guide the portfolio construction towards supporting businesses that are working towards a more sustainable future.
- Due diligence on underlying funds focuses on the future which means decision making is driven by qualitative analysis more than quantitative analysis.
- Where possible Hawksmoor tend to favour investing in smaller funds, which they judge to be 'ones for the future'.
  Hawksmoor believe that supporting smaller funds helps them establish more robust relationships with the fund managers. They also believe that this strategy is not really an option for larger ESG portfolios.

### **Fund information**

Launch Date	July 2018		
Portfolio Manager	Jim Wood-Smith & Team		
Domicile	GBP		
Assets	Active		
Approach	Risk Focused		
Туре	MPS		

UN PRI signatory*	No	
UK Stewardship Code signatory	No	
IA Sector	-	
Morningstar Category	-	
Defaqto Diamond Rating Type	MPS Family	
Diamond Rating	5	

# ESG policy and alignment

The objective of this portfolio strategy is to invest in funds that in turn have the objective of investing in businesses that specifically seek to provide solutions to sustainability issues and/or have strong corporate policies relating to ESG criteria. The Moderate portfolio also has the objective of providing returns from a combination of capital growth and income within the agreed risk profile. The portfolio, typically, will have an equity content of between 40% and 60%.

The selection of third party funds for the portfolio follows a more sustainable future.

### Number of exceptions: 0

The objective of this portfolio strategy is to invest in funds—series of primarily qualitative stages that includes a number of that in turn have the objective of investing in businesses that—fund manager meetings and team discussions.

The team seek to understand how third party managers consider and incorporate ESG factors in to their investment decisions. While there is no specific underlying ESG theme to the portfolio, diversification and risk management will guide the portfolio construction resulting in the focus of the portfolio supporting businesses that are working towards a more sustainable future

# Levels of ESG integration

Risk management

2%

ESG integration/ exclusionary

20%

Sustainability focus

60%

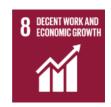
Impact investing

18%

For full details, please refer to p5











<sup>\*</sup>UN Principles for Responsible Investment (PRI)

# **ESG** factors

### **Environmental**

Less than 1%	Between 1% and 10%		Mor	e than 10%
Environmental Exposur	es	Prod	duct	There are Nuclear a
Fossil Fuel			3.42	energy pr transition.
GMO			0.00	An examp
Nuclear			1.02	which is a
Oil Sands Extraction			0.00	some foss
Palm Oil			0.00	Decarboni on so wou
Pesticides		(	0.00	the fund r
Thermal Coal			0.15	direction a underlying

There are two exposures of note here, fossil fuel at 3.42% and Nuclear at 1.02%. As underlying companies transition to cleaner energy production, there is likely to be some legacy areas still in transition.

An example would be NextEra Energy, held by the Ninety One fund, which is an American clean energy company. Although it does have some fossil fuel plants, these are all scheduled for 'retirement'.

Decarbonisation is an area that Hawksmoor are particularly focused on so would certainly form a significant element of discussions with the fund managers to ensure that exposures are heading in the right direction and are not significant, although the team are content with underlying fund managers investing in the transition from fossil fuels to renewable energy which may flag up as noted here.

Source: Based on availability of Morningstar ESG data as at December 2021

#### Social

Social Exposures	Product Involvement %
Adult Entertainment	0.00
Alcohol	0.00
Animal Testing (Pharmaceutical)	12.44
Animal Testing (Other)	0.00
Controversial Weapons	0.00
Fur and Specialty Leather	0.00
Gambling	0.00
Military Contracting	0.05
Small Arms	0.00
Tobacco	0.00

There is only one exposure of note, which is animal testing at 12.44%. The majority of this exposure comes from underlying investments in pharmaceutical and healthcare related investments. It should be noted that there is usually a legal requirement to test new vaccines and drugs on animals. There is no exposure to nonpharmaceutical animal testing.

As an example the EdenTree funds exclude companies that use animals to test cosmetic or household products, but do invest in Pharmaceutical companies that may conduct animal testing. BMO take it a step further, excluding even pharmaceutical companies that are not replacing, reducing and refining animal testing in order to minimise harm and enhance welfare.

Source: Based on availability of Morningstar ESG data as at December 2021

#### Governance

When analysing governance on the underlying third party follow a policy of engagement with their invested companies funds, they ensure that the funds they invest in are in turn and exercise voting rights where appropriate to ensure those investing in companies that follow all the usual governance underlying companies continue to follow and improve on ESG criteria including executive structure and quality, board principles. Where possible, Hawksmoor invest in funds that diversity and effectiveness, shareholder protections and align with their own ESG philosophies. rights, transparency and overall corporate culture.

In addition, they are keen that underlying fund managers

# Levels of ESG integration

Within this section, we look at how ESG has been implemented across the portfolio. We use the IA responsible investment framework across three portfolio-level components: exclusions, sustainability focus and impact investing.

### Risk management

Unusually, excepting a small cash holding, all underlying ESG principles. investments have been made in funds that focus primarily on

#### ESG integration/exclusionary 20%

The Sustainable World portfolios do not apply any exclusions they have a 'soft' target, where they would expect any Hawksmoor's due diligence on third party funds explores this underlying funds with less than 7 exclusions. in more detail. While there is no specific policy of exclusions

themselves believing, not unreasonably, that some or all of underlying fund to have at least 5 underlying exclusions. Any the underlying funds held will, by their nature, exclude less than this would result in further discussions with the fund investment in certain areas or sectors. An element of managers with explanations sought. Currently, there are no

### Sustainability focus

60%

that the nature of the underlying funds will also have work. appropriate levels of exclusions and impact investing.

energy efficiency. In particular, exhibit low or no use of fossil funds are more likely to feature on the buy list. fuels and are strong on decarbonisation. Funds are favoured

As the names would suggest, the Sustainable World portfolios that are invested in companies that operate best practices in have a significant focus on sustainability, also understanding employment and engage with the communities in which they

Each fund on Hawksmoor's buy list is awarded both a risk For this reason, Hawksmoor due diligence of underlying funds score and a sustainability score. The sustainability score focuses on those funds that invest in companies that embrace measures application of exclusion policies, ES & G criteria, the best practices of sustainability. These would include Positive benefit, reporting on ESG issues, carbon footprint. . businesses that support and educate supply chains, source Funds are scored from -5 to +5 for each category. Scores must raw materials sustainably, support recycling and improve be above 0. Weighted average is calculated and best scoring

### Impact investing

18%

Hawksmoor take a pragmatic approach to portfolio underlying fund have a measurable impact on a specified impact investing as a strategy where all investments in an place would be the Ninety One Global Environment fund.

construction in terms of impact investing which they see as sustainability metric, and crucially where the fund is able to the higher risk end of ESG investing. In this context, we see measure and report on it. An example of where this takes

# Top 10 holdings

Name	Sector	% of assets
EdenTree Resp & Sust Global Equity	Global Equity	6%
Foresight Sustainable Real Estate Securities	Global Property	6%
Liontrust Sustainable Future Global Growth	Global Equity	6%
Sarasin Sustainable Global Real Estate Equity	Global Property	6%
BMO Responsible Global Equity	Global Equity	5%
EdenTree Resp & Sust Sterling Bond	Fixed Income	5%
Janus Henderson Global Sustainable Equity	Global Equity	5%
Liontrust Sustainable Future Corporate Bond	Fixed Income	5%
Ninety One Global Environment	Global Equity	5%
Threadneedle UK Social Bond	Fixed Income	5%

### Sustainable Development Goal (SDG) focus



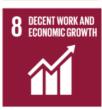






























Source: Hawksmoor December 2021

### Engagement with corporates and/or funds

underlying third party fund managers rather than the end meeting their expected standards, Hawksmoor will engage companies. Initial and ongoing due diligence with the underly- with them to seek an explanation and potentially improve ing fund managers will cover both the corporate ESG position their approach. of the fund houses as well as their voting and engagement activities with the invested companies.

selection process so engagement with the third party fund engagement process when necessary. managers, through meetings and calls features strongly in the

Given the strategy, engagement from Hawksmoor is with the process. Where it is identified that any fund manager is not

Hawksmoor actively seek out funds that are smaller and perhaps unfamiliar to advisers, but also believe this approach Qualitative due diligence is the foundation of Hawksmoor's leads to stronger long term relationships, which enhances the

#### Resources

CIO, Private clients. He is supported in running all MPS portfo- relevant research is available to both teams. lios, including the Sustainable World portfolios, by Senior Fund Analyst James Clark and Research Assistant Emily Cave.

ist, it is estimated that James Clark spends in excess of 60% of source to check their thinking. his time on ESG fund research. The team operate a collegiate approach where each analyst is a generalist. While MPS and

A team based approach, headed up by Jim Wood-Smith who is Fund Management at Hawksmoor have separate teams, all

The team also subscribe to Alpha terminal, FE analytics and Vigeo EIRIS. Hawksmoor are keen to note that the third party A tight-knit team that although has no dedicated ESG special- research does not drive their process, rather is an useful re-

# Hawksmoor's ESG policy

World portfolios is that applying ESG principles will naturally number of sustainable funds in common. identify quality companies that in themselves will be sustainable and with a higher probability of succeeding over the longer term.

Hawksmoor do not have a formal ESG policy, but are keen to It should be noted that the same team manage both Sustainapoint out that part of the philosophy of their Sustainable ble World and 'traditional' portfolios within the MPS, with a



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