

A BUMP IN THE ROAD

Welcome to the Sustainable World Investors' Report covering the first quarter of 2022. 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 the short-term performance and five-year track record of an illustrative Hawksmoor Sustainable World portfolio.

This quarter's Fund Focus is on Foresight Sustainable Forestry Company, a recently-launched investment trust with a portfolio of UK operational forestry and afforestation schemes, which we believe is particularly well-suited to investors positioned towards the lower end of the risk spectrum. Please note that investment trusts can be held within Hawksmoor's Sustainable World Discretionary Portfolio Management Service, but not utilised within our Sustainable World Model Portfolio Service.

Following three very successful years for sustainable investment, 2022 has got off to a more challenging start, as outlined on page 4. Investors may have more pressing concerns than their ESG (environmental, social and governance) concerns. This links with the war in Ukraine and the West's reliance on Russian energy. An elevated oil price should encourage substitution effects, benefitting the renewable energy industry. What greater incentive does the world need, given heightened geopolitical and energy security concerns, to fully embrace our abundant resources of wind, solar and other renewables? Furthermore, energy efficiency measures will be more important than ever. These are important investment themes for a number of sustainable funds, which should be supportive over all timeframes. The war in Ukraine has also sparked a debate on whether Defence companies should be viewed more positively from an ESG perspective. This is a question that we are currently tackling (in relation to investing in direct equities), one which is fraught with difficulty, including the potential need to differentiate between 'good' and 'bad' customers for Defence companies and to distinguish 'protective/defensive' revenue from 'aggressive/controversial'.

Elsewhere, James is pleased to once more serve as a judge for the Investment Week Sustainable & ESG Investment Awards in 2022.



James Clark



Emily Cave

"Addiction to fossil fuels is mutually assured destruction. As current events make all too clear, our continued reliance on fossil fuels puts the global economy and energy security at the mercy of geopolitical shocks and crises."

Secretary-General of the United Nations, Antonio Guterres, Economist Sustainability Summit, 21st March 2022.

(Source: <https://www.un.org/sg/en/node/262502>)



IN THIS ISSUE:

2

FUND FOCUS

Foresight Sustainable Forestry Company – putting down roots

3

SUSTAINABILITY IN THE NEWS

From a banned TV advert to the UK government being taken to court

4

PERFORMANCE

Hawksmoor Sustainable World illustrative portfolio

Foresight Sustainable Forestry Company

Foresight Sustainable Forestry Company is an investment trust with a portfolio of operational forestry, afforestation schemes and mixed schemes located in the UK. The trust aims to generate an attractive net total return for shareholders over the longer term (comprising capital growth and aperiodic dividends) and targets a total return of 5% above inflation (CPI) per annum. It launched in November 2021, stemming from Foresight's forestry investment experience within an Inheritance Tax Fund, which in March 2022 provided a seed portfolio of 27 assets valued at £113.4m. These assets are located in Scotland (80%), Wales (13%) and England (7%), covering over 8,100 hectares. The trust has a further pipeline of forestry assets and will look to grow in due course.

Forestry is an attractive investment from both a financial and a sustainability perspective. Forestry assets have exhibited strong capital growth, with the MSCI UK Forestry Total Return index producing a compound annual growth rate of 12.2% between 1999 and 2017, rising to 16.9% from 2017 to 2020. The UK is an attractive location for forestry investment due to a supply and demand imbalance (being one of the least-forested countries in Europe) combined with favourable climatic conditions. Furthermore, UK forestry assets have far outstripped the rate of inflation over the last two decades, and have exhibited negative correlations with UK corporate bonds, large-cap equities, property and wholesale electricity prices.

Land appreciating over time and the sale of mature timber (generating a 2-3% yield of timber in the agricultural sense) are the trust's main sources of growth and revenue, accompanied by leases to renewable energy developers and ecotourism operators. However, the most interesting aspect of Foresight Sustainable Forestry Company is that its afforestation schemes (the planting of new trees on land where there were previously none, thus growing a new forest) will, in time, generate carbon credits, which can be sold to individuals and companies for the purpose of carbon offsetting. The global market for (and price of) carbon credits is expected to grow substantially over coming decades due to scarcity of supply combined with huge demand for corporate carbon offsetting.



Foresight
SUSTAINABLE
FORESTRY
COMPANY PLC



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 2022.



13th January: The UK government is being taken to court by Friends of the Earth and the environmental law charity ClientEarth (separately) over last October's Net Zero Strategy announcement, with both groups arguing that the strategy's policies won't result in sufficient emissions reductions to reach net zero by 2050. The strategy aimed to fill in the gaps within the UK's commitment to reach net zero emissions by 2050. Both Friends of the Earth and ClientEarth have filed for a Judicial Review at the High Court, with both saying they would argue that the Net Zero Strategy doesn't comply with the 2008 Climate Change Act (updated in 2019). ClientEarth would also argue that the strategy doesn't comply with the 1998 Human Rights Act, stating that climate change is likely to undermine the rights to family and private life of today's youth as they get older. (Source: www.edie.net, as at 12th January 2022)

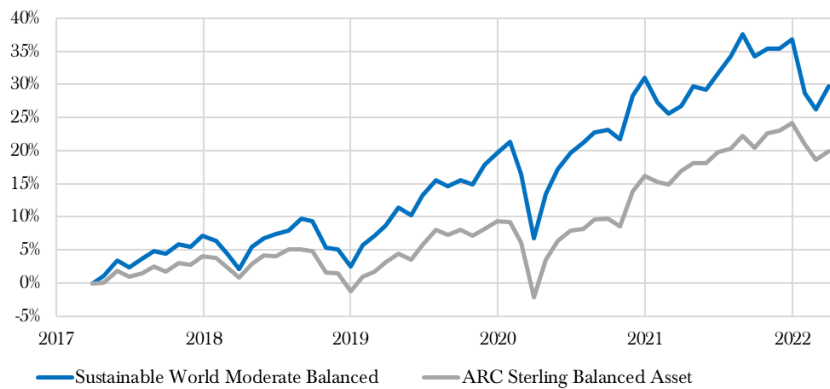
31st January: Global investment in the low-carbon energy transition reached a record high in 2021, according to a report from Bloomberg New Energy Finance. Total government, corporate and financial institution investment amounted to \$755bn in 2021, up by 27% year-on-year. This is across the areas of renewable energy, energy storage, electrified transport, electrified heat, nuclear, hydrogen, carbon capture and storage (CCS) and sustainable materials. Therein, renewable energy (at \$366bn, up 6.5% y/y) and electrified transport (at \$273bn, up 77% y/y) were the two biggest sectors by far. By geography, Asia Pacific (at \$368bn, up 38% y/y) led the way, followed by Europe, the Middle East and Africa (at \$236bn, up 16% y/y) then the Americas (at \$150bn, up 21% y/y). All three regions hit record highs for energy transition investment in 2021, whilst at the country level, China (at \$266bn, up 60% y/y) was miles ahead of the USA (at \$114bn, up 17% y/y). This has seen China overtake the UK as the leader in the offshore wind power market – China added more capacity (26GW) here in 2021 than the rest of the world did over five years. Germany, the UK and France complete the top five nations for energy transition investment in 2021. (Source: www.edie.net, as at 28th January 2022)



25th February: The UK Advertising Standards Agency has banned a TV advert from Innocent Drinks, owned by Coca-Cola, after activists claimed that the advert's environmental claims were misleading. The advert first aired last May and features a man and an otter almost falling off the top of a waterfall in a boat, cleaning up rubbish, making smoothies, singing about 'messing up the planet' then 'cleaning up the planet'. Plastics Rebellion (an offshoot of Extinction Rebellion) complained to the ASA that a brand that mass-produces plastic packaging should not be implying that its products deliver a net benefit to the environment. The ASA agreed, with its ruling stating that 'Many consumers would interpret the overall presentation of the ad to mean that purchasing innocent products was a choice which would have a positive environmental impact'. Innocent Drinks responded to Plastics Rebellion that it was encouraging consumers not to harm the planet. (Source: www.edie.net, as at 23rd February 2022)

15th March: Uber has pledged to invest £5m in the provision of 700 on-street electric vehicle charging points in London. These rapid EV charging points will be available to the general public as well as Uber drivers, and will be located in three boroughs – Newham, Brent and Redbridge (the latter being currently the worst-served London borough for on-street EV charging points). The ride-hailing company currently has over 5,000 drivers using EVs in greater London (a figure which could double by the end of this year), and is targeting having a fully electric fleet in the capital by 2025 (hence this investment makes a lot of sense) and across the UK by 2030. (Source: www.edie.net, as at 10th March 2022)





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 2022, this illustrative portfolio has provided a total return of 29.7%, against a return of 20.5% from its ARC Sterling Balanced Asset PCI comparator. We are very pleased to have reached a five-year track record.

In the first quarter of 2022 this Sustainable World illustrative portfolio was down 5.9%, against a return of -3.2% from its ARC comparator. This tough start to 2022 follows three consecutive calendar years of outperformance. January 2022 was a particularly bruising month, as concerns over inflation, higher interest rates and the tapering of quantitative easing measures contributed to a rotation from growth to value sectors of equity markets, particularly Energy (where sustainable equity funds typically have little or no exposure) and to a lesser extent Financials. We felt that some fund-specific January performances, such as that of WHEB Sustainability (down 14.3%), were overly harsh. For the quarter, returns from Global Equities funds were typified by BMO Responsible Global Equity (down 7.3%). Our selections among UK Equities funds generally fared better (albeit with a wider range of outcomes), with Janus Henderson UK Responsible Income (down 2.0%) standing out. Fixed Income funds provided negative returns in a difficult environment, as evidenced by EdenTree Responsible & Sustainable Sterling Bond (down 4.4%). Alternative Assets continued to be a very important source of returns for this illustrative portfolio, led by investment trusts Gresham House Energy Storage (up 8.3%) and JLEN Environmental Assets (up 9.1%) along with gold exposure via The Royal Mint Physical Gold (up 9.5%).

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

Hawksmoor Investment Management Limited is authorised and regulated by the Financial Conduct Authority (www.fca.org.uk) with its registered office at 2nd Floor Stratus House, Emperor Way, Exeter Business Park, Exeter, Devon EX1 3QS.

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