HAWKSMOOR
INVESTMENT MANAGEMENT

SUSTAINABLE WORLD INVESTORS' REPORT

Summer 2022

The Long Term View

Welcome to the Sustainable World Investors' Report covering the second 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 (notably the ejection of Tesla from an ESG index of stocks), and on this occasion conclude with a look at how some Property & Infrastructure assets have been more than holding their own during a difficult period. (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.)

This quarter's Fund Focus is on Boston Common Global Impact Equity, a fund which we added to our private client Buy list in May following two pieces of research work over last winter. This is a differentiated positive impact fund from a lesser-known (to UK investors) fund management group, where organisational diversity is a top priority and engagement with companies is a core part of the process.

Following three very successful years for sustainable investment, 2022 got off to a more challenging start (as outlined in our previous Investors' Report) with a particularly tough January, and the challenging market conditions have continued. Concerns over inflation and higher interest rates (which are coming to pass) 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. Fixed income markets have also had a tough time given rising yields. However, all is not lost – some fixed income exposure now offers huge yields, some equity valuations have pulled back to much more attractive levels, and sustainable Property & Infrastructure assets have performed strongly (as outlined on page 4). More broadly, the importance of investing in a sustainable manner has not diminished – recent heatwaves across Europe (and here in the UK, at the time of writing) are evidence of climate change in action, whilst the ongoing war in Ukraine continually reminds us of geopolitical and energy security concerns. Sustainable funds are aligned with investment themes which have increased – not diminished – in importance.

James Clark

Emily Cave

> "Today the natural world almost everywhere is changing and in retreat because of what we are doing to it … We are at the crossroads, the decisions we make today will lead to a brighter future, not only for the worlds wild life but all humanity."

Sir David Attenborough, Queen's Platinum Jubilee. 4th June 2022. (Source: https://www.youtube.com/watch?v=MLFyof2mU5E)

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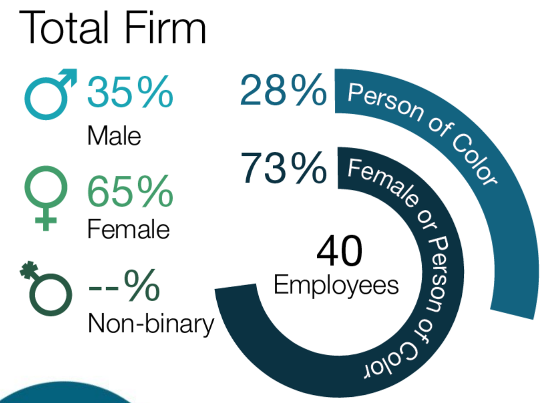
Boston Common Global Impact Equity

Boston Common Asset Management is something of a rarity in that it's a modestly-sized (at the time of writing) US fund management group with a focus on sustainable investment. Diversity within the organisation is a top priority (see image below), with diversity of background and experience felt to be particularly important across the investment team. All Boston Common funds integrate the consideration of environmental, social and governance (ESG) factors into their investment processes, with Global Impact Equity being the firm's positive impact proposition, representing the best investment ideas from an impact perspective. This fund is managed by a team of four portfolio managers – Matt Zalosh, Corne Biemans, Praveen Abichandani and Liz Su – aiming to outperform the MSCI All Countries World Index benchmark by 3-4% per annum over the long term (gross of fees).

Importantly, Boston Common Global Impact Equity also formally aims to generate impact through investing in 'solutions companies' aligned to the UN Sustainable Development Goals (SDGs), and to catalyse societal change and positive impact through active engagement. The strategy to achieve this is to deploy a high conviction portfolio of 40-60 holdings with high active share (meaning the portfolio looks very different to its benchmark) and low turnover (typically 20-30% per annum), focusing on companies whose products and services enable the transition to a sustainable world. Therein, the managers invest in 'Solutions Leaders' (companies generating over 50% of revenue from alignment with one or more of nine impact themes; c.80% of the portfolio) and 'Solutions Exposure' (those with 10-50% of revenue aligned with these themes; c.20% of the portfolio). The team's nine impact themes (see image below) are aligned with 15 of the 17 UN SDGs.

Following screening for liquidity and quality characteristics and assessment against the nine impact themes, the crux of the investment process is the creation of a 'focus list'. This is where a sector analyst carries out fundamental analysis on a company (covering business profile and financial prospects) whilst simultaneously an ESG analyst carries out impact analysis (focusing on products, processes and policies), with an iterative nature to the two teams working side-by-side. The resulting portfolio typically has a bias to medium-sized companies whilst being underweight the very largest companies. Whilst geographic and sector allocations are purely the product of bottom-up stock selection, the portfolio is typically very underweight North American companies due to the team's valuation-conscious approach, combined with always looking to have superior quality metrics (relative to benchmark). Stock selection typically drives returns from Boston Common Global Impact Equity. Hawksmoor has access to a founder share class with low charges, for a fund which is a differentiated positive impact proposition.

Boston Common Asset Management



(Source: Boston Common Asset Management)

SUSTAINABILITY IN THE NEWS

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 2022.

12th May: Iceland is facing its second major case of sustainability-related disruption due to the war in Ukraine. In late March the frozen-focused supermarket revealed that it had been forced to temporarily row back on its removal of palm oil from all own-brand products, due to the new-found unavailability of sunflower oil, given that Ukraine and Russia collectively account for 70% of global sunflower oil exports. Now, it's the removal of plastic packaging from all own-brand products that has been hit. A target set in 2018 had been to remove plastic from all own-brand packaging by the end of 2022, but this is likely to be derailed by a supply chain which is in 'survival mode'. Iceland managing director Richard Walker admitted to The Times earlier this week that his stores are still 'a sea of plastic'. It's not all doom and gloom, however, as the prior initiative to replace non-recyclable black ready meal trays with a wood pulp alternative has saved 850 tonnes of plastic waste, and Iceland is now trialling paper-based alternatives to the plastic packaging used for chips and frozen vegetables. (Source: www.thetimes.co.uk, as at 10th May2022)

25th May: Tesla has been ejected from the S&P 500 ESG index. This is reportedly due to issues including claims of racial discrimination (particularly at its plant in Fremont, California), crashes linked to its advanced driver assistance systems (i.e. autopilot), and a lack of published details relating to the company's low carbon strategy or business conduct codes, according to Margaret Dorn, S&P Dow Jones Indices' head of ESG indices for North America. The S&P 500 ESG index aims to keep sector weightings the same as they are in the 'main' S&P 500 index "while enhancing the overall sustainability profile of the index". In the latest annual update to this index, effective from 2nd May, Twitter and oil refiner Phillips 66 were added, whilst Delta Air Lines and Chevron were removed along with Tesla. Exxon Mobil remains a constituent of the S&P 500 ESG index.

Tesla is a 'marmite' stock among ESG ratings agencies (rated highly by some, lowly by others) and also among sustainable funds. But the wider point here is on the fallibility of passive ESG investments which track indices such as the S&P 500 ESG index. ESG ratings agencies and their methodologies are far from perfect, and the same is true for ESG indices. Investors are reliant on underlying methodologies which permit holdings such as Exxon Mobil and Phillips 66. (Source: www.reuters.com, as at 19th May 2022)

28th June: Transport for London has launched a tender for a Power Purchase Agreement to power 10% of the London Underground network with renewable energy. The tender was announced by Mayor Sadiq Khan yesterday, and is expected to be the first of many as TfL works toward its target of powering 100% of the Tube network with renewable energy by 2030 (a target announced by the Mayor in 2020). Some commentators are questioning the optically low 10% first tender, but the Mayor suggests this could be 'scaled up quite quickly' and added 'I don't want a big bang approach that fails; 2030 is the worst case scenario'. TfL is thought to be one of the largest electricity consumers in the UK, with annual demand of around 1.6 TWh. This is another snippet of good news for the UK renewables industry. (Source: www.edie.net, as at 27th June 2022)

CASE STUDY

During a challenging period for sustainable investment strategies, some alternative assets more than held their own during the second quarter of 2022, which we elaborate on below. In recent editions of our Sustainable World Investors' Report we have introduced the sustainability credentials of a number of investment trusts which we classify under Property & Infrastructure and which are eligible for inclusion in Sustainable World portfolios.

Foresight Sustainable Forestry Company delivered a total return of 10.3% during Q2. Performance was particularly strong during May, which was book-ended by significant developments. Early in the month, the trust announced its first NAV (net asset value) since launch in November 2021, which had risen to a very healthy 104.2p per share as at the end of March 2022, driven by existing afforestation assets being revalued upwards and recently-acquired afforestation assets being marked-to-market. In late May, the trust announced a placing of new shares at 107p (which Hawksmoor participated in), which subsequently raised £45m, sufficient for the managers to buy an 'exclusive pipeline' of 14 assets (largely afforestation) with exclusivity agreements in place, valued at £43.2m. A much deeper pipeline of assets exists, and the trust is enjoying a growth phase with a good level of interest from investors.

JLEN Environmental Assets delivered a total return of 9.9% during the quarter. This trust currently yields 5.8% but, with a broadened (beyond wind, solar, anaerobic digestion, waste and bioenergy) environmental infrastructure mandate, is much more than an income play. In early May the trust stated that a substantial uplift (of 13-15%) in its end of March 2022 NAV could be expected, which duly materialised with a 14.6% rise in NAV over just one quarter. A decent proportion of portfolio revenues are fixed for forthcoming seasons, but the trust still benefitted as electricity prices for the Summer 2022 season almost tripled between April 2021 and March 2022. The 6.8p dividend target for the year to March 2022 was met, duly raised by 5% to 7.14p for the following year. Full-year results were very positive, and we believe there is more to come from the trust's next generation of environmental infrastructure assets.

Gresham House Energy Storage delivered a total return of 13.9% during the quarter. This battery storage investment trust in early April reported strong full-year results to the end of December 2021, with NAV per share rising by 13.5%. Guidance for a further rise in NAV per share to 140-145p as at the end of June 2022 was offered, with a substantial portion of the portfolio currently under construction (and set to be revalued upwards as they become operational). In late May, the trust announced a placing of new shares at 145p (which Hawksmoor participated in), which subsequently raised £150m to put towards acquiring a substantial pipeline of further assets. There are numerous milestones ahead for the trust, and we believe it's a very attractive holding for both growth and income-oriented investors.