HAWKSMOOR
INVESTMENT MANAGEMENT

SUSTAINABLE WORLD INVESTORS' REPORT

Winter 2022

A Brighter Outlook

Welcome to the Sustainable World Investors' Report covering the fourth 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 how consumer groups have been reducing single use plastics.

2022 was a challenging year for sustainable investing. There were two factors behind this: rises in interest rates, and the war in Ukraine. The first of these will prove to be temporary, while the second will eventually significantly enhance the need to dramatically reduce the reliance on fossil fuels.

Much of the world has finally recognised the fragility of imported oil and gas and that the future will be shaped by local and clean(er) sources of power. The war in Ukraine has been the disruption that was needed for this recognition. Europe has moved with impressive speed to reduce its need to have Russian gas and we are already seeing increased investment into non-hydrocarbon sources of energy, and energy storage. On the other side of the Atlantic, the confusingly named Inflation Reduction Act may not be everything that President Biden wished, but it has also sparked a marked increase in investment into clean energy.

The impact on share prices of businesses previously seen as being at the forefront of the transition to carbon net-zero may have been temporarily detrimental, but that will pass. It remains our view that these will remain the leaders of a transition that will ultimately come to all economies and all businesses.

The rises in interest rates and bond yields have hurt our portfolios in two ways. First, the former has had a material negative impact on how the market has valued growth businesses. The latter, in raising the return available from perceived less risky assets (gilts and corporate bonds), for example, has reduced the short-term attractions of the yields provided by the owners of renewable energy assets (typically wind and solar farms).

It is inescapable that the short-term performance of our sustainable portfolios will ebb and flow with the moods of the markets. That does not distract us from our intention to invest into businesses that are both leading and enabling the multi-decade shift to low, and eventually net-zero, carbon. We also invest into the companies that are the most environmentally aware, those with the best corporate governance and those with the most positive societal interactions. These are the qualities that create the most sustainable businesses, and those that we believe will ultimately provide superior financial returns.

"Paris gave us the agreement. Katowice and Glasgow gave us the plan. Sharm El-Sheikh shifts us to implementation... The heart of implementation is: Everybody, Everywhere in the world, Every single day, Doing Everything they possibly can to address the climate crisis."

UN Climate Change Executive Secretary, Simon Stiell, COP27 7/11/22 (Source: https://unfccc.int/news/cop27-opening-remarks-by-the-un-climate-change-executive-secretary)

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FUND FOCUS

Regnan Sustainable Water & Waste

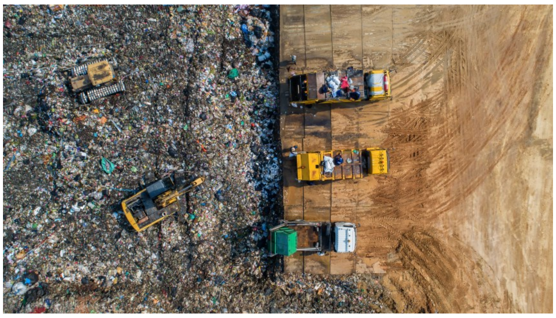
Regnan sits under the Jo Hambro Capital Management group, but is branded as the sustainable arm of the business investing in ESG themes and opportunities. The Regnan Sustainable Water & Waste fund offers our sustainable portfolios a thematic and differentiated edge. The themes of water and waste are important global issues, and will only continue to grow in significance as time goes on with increased water scarcity and waste generated as global population grows. This global equity fund invests in companies across the value chain of both water and waste, and with both issues having essentially the same drivers they both complement each other within the fund. The main drivers being: urbanization, consumption, pressure on infrastructure, regulations and health, and resource scarcity.

For example, more people living in cities globally leads to increased clean water and sanitation needs, and an increased need to manage waste. Consumption has become more water-intensive and generates more waste. More pressure on infrastructure increases the need for water network repairs and new build, and increased investment in waste solutions. Resource scarcity necessitates new technologies and solutions, and viewing waste as a resource rather than a problem.

As populations grow and are becoming wealthier, the more water intensive resources and waste footprints become, for example: 1 pint of beer takes 75 litres of water to produce; 1 cotton shirt takes 2,494 litres of water; 1 mobile phone takes 1,000 litres of water; and a milk carton takes 5 years to decompose. By 2030 there is expected to be a 'water gap' of 2,800 billion cubic meters.

The fund invests in both water and waste companies, usually a 60:40% split respectively. For water, this is everything from companies involved in the intake (e.g. pumps, valves, desalination), treatment (e.g. filters) and storage (e.g. dams, reservoirs, water towers) of water, through to transport and supply, to regulated utility companies and those involved in wastewater treatment and recycling. For waste, the value chain covers companies involved in municipal services (e.g. bins collection, sewage and street cleaning), on-site industrial services (e.g. sorting, recycling, cleaning) and hazardous waste services, through to transport, waste treatment (e.g. composting, sorting, landfill, waste-to-energy and recycling facilities) and re-source (e.g. fertilisers, refuse-driven fuels). The re-source category links with the above with viewing waste as a resource rather than a problem.

Regnan



(Source: J O Hambro Capital Management Limited)

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 fourth quarter of 2022.

20th October: The UK's advertising watchdog (the ASA) has reported consumer confusion over greenwashing and net-zero claims in ads. Net-zero claims by businesses could mean carbon off-setting rather than reducing absolute emissions in-house, which could mislead consumers. This comes from a lack of a standarised and legal definition of terms in advertising such as 'net-zero' and 'carbon-neutral'. The ASA recently banned an HSBC tree planting ad and financing low-carbon activities ad after complaints were submitted highlighting that the ads suggested HSBC had a positive environmental approach, when it had potentially financed over $85bn to fossil fuel companies between 2015 and 2021. This is the first ASA ruling in the financial sector but has made rulings in the past within the aviation and consumer goods sectors. (Source: www.edie.net, as at 20th October 2022)

31st October: Three weeks after a controversial deal with Shell, British Cycling's CEO, Brian Facer, has stepped down. British Cycling had confirmed it will partner with Shell to fund the organisations programmes some of which are aiming to improve disability access and develop a decarbonization roadmap for the sport. Previously British Cycling had partnered with HSBC for eight years, but this new partnership with Shell will go until 2030. There has been significant backlash against the partnership calling it hypocritical, with many highlighting that Shell helping the organisation reach net-zero is absurd considering the company's main activities do not align, and there are suggestions that Shell are using such partnerships to divert attention away from the fossil fuel damage caused by the company itself – essentially greenwashing. (Source: www.theguardian.com, as at 31st October 2022)

9th November: McDonald's has moved away from plastic straws, cutlery, Happy Meal toys, and McFlurry lids towards sustainable and recyclable alternatives in the UK, such as paper straws, paper foldable lids and paper-based toys or soft toys. The company trialled this in Scotland, Northern Ireland and Ireland earlier in the year and will now be made permanent and rolled out to England and Wales. McDonald's had pledged to reduce its plastic packaging by as much as possible by 2024, and all consumer-facing packaging was to be made fully recyclable and compostable. This latest move by the company aligns with this goal, as restaurants are being told to use the remaining inventory they have of the plastic packaging so the new packaging will be phased out gradually but will still make the 2024 target. (Source: www.edie.net, as at 8th November 2022)

20th November: Historic agreement to establish a loss and damage fund at COP27 to be launched in 2023, with the aim to support developing climate vulnerable nations financially. Loss and damage will cover a broad range of issues and scenarios for unavoidable climate impacts, including: economic loss, goods and services output changes and impact to markets, damage and loss regarding life, location, territory, biodiversity and also conceptual aspects like identity and culture. The 1.5C target still means there is going to be climate impacts to certain communities which cause irreversible damage but could potentially be prevented/reduced with funding through mitigation and adaption strategies. Therefore, loss and damage will cover this scenario also. The finance mechanism will sit with the UNFCCC (United Nations Framework Convention on Climate Change) under the Paris Agreement. Within a new committee it is still to be decided who should receive or pay money into the fund and how. (Source: www.edie.net, as at 20th November 2022)

Plastic waste: progress, or just papering over the cracks?

The findings in the latest Ellen MacArthur Foundation report were a mixed bag (for life).

It contained some statistics that will induce plenty of brow-furrowing among its readership. Perhaps the most infuriating is that overall virgin plastic use increased from 2020 to 2021. It is shameful that it is the biggest consumer groups behind this. They have the most responsibility and the greatest resource. To hit the next targets, the rate of change now needs to be unprecedented.

However, there are areas where the large multi-nationals are bringing positive change.

Of course, the most obvious and most effective way to reduce plastic pollution is to stop using it. The report acknowledges increased elimination efforts by many of those that have signed up to the Global Commitment's reduction targets. But lightweight features and an ability to preserve food effectively mean plastic is not going to be fully removed from the system any time soon. That underscores the importance of recycling. The percentage of signatories' packaging that is reusable, recyclable, or compostable has again increased slightly to 65.4%. Of course, this is only useful if recycling actually takes place. There remains work to be done, but the report highlights how recycled content is on the rise. From just 1 in 20 in 2018, an average of 1 in 10 pieces of the signatories' plastic packaging pieces are now on at least their second cycle.

Investors demanding action and accountability means hiding away from the spotlight is simply no longer an option for listed businesses. This, and the potential to raise fresh capital for companies looking to profitably solve the environmental issues, means public markets have a huge role still to play in uprooting decision-makers' heads from the increasingly microplastic ridden sands.