HAWKSMOOR
INVESTMENT MANAGEMENT

SUSTAINABLE WORLD INVESTORS' REPORT

Spring 2023

Steps Towards Transition

Welcome to the Sustainable World Investors' Report covering the first quarter of 2023. 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 piece on global energy transition.

Sustainable investments, in common with the wider markets, have tended to consolidate late 2022's gains during the first quarter. We have seen a number of strong and conflicting forces at work, but nothing to suggest that those businesses with the most sustainable operating models will not be long-term winners.

Energy prices have almost stabilised. These have been a two-edged sword. In the long run, national net zero targets continue to depend on a huge increase in non-hydrocarbon power sources. Over the shorter-term, however, the major oil companies are seeing extended opportunities in their core businesses, created by the West's current aversion to Russian oil and gas. The clearest example of this is BP; the previous leading advocate of energy transition has reined back on both the quantity and the timescales of its promises of carbon reduction. They are complex arguments, and many shareholders will applaud BP's willingness to seek these short-term profits.

The huge rises in energy prices, high inflation and unusually high interest rates are discouraging many governments from pushing ahead with plans for transition. The short political cycles make this inevitable. The result is that there is no great governmental appetite for forcing absolute carbon reductions, meaning that an ever-greater reliance is going to be placed on offsets and carbon capture. These broadly entail the planting of a great number of trees (an exercise that has its own very substantial complications) and the pumping of carbon dioxide into empty oil wells. Both of these provide a myriad of investment opportunities, but it is not necessarily a healthy path to have taken.

We should mention the United States, where sustainability has become party-political to the extent that Biden has had to personally veto anti-ESG legislation. It is a division that will only strengthen as we get closer to next year's election. It would be wrong, though, to paint a gloomy picture. The US Inflation Reduction Act (IRA) is genuinely accelerating both investment and innovation, while regulation is driving ESG into the investment mainstream in both Europe and the UK. It is also a concept that is being adopted with notable enthusiasm in much of Asia. Performance of our sustainable portfolios will ebb and flow with the market mood, but the long-term benefits are irrefutable.

"Today, fossil fuel producers and their enablers are still racing to expand production, knowing full well that this business model is inconsistent with human survival. Now, this insanity belongs in science-fiction"

UN Secretary-General, Antonio Guterres Davos 2023 (Source: https://www.weforum.org/agenda/2023/01/radio-davos-2023-day-2-the-economy-and-the-climate/)

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2 FUND FOCUS

HANetf The Royal Mint Responsibly Sourced Physical Gold ETC

Gold sits in our alternative allocation within portfolios and we believe is a good diversifier over the long term given its low correlation to other assets like equities and bonds. The main driver of gold demand is its role as a safe haven asset which hedges against inflation and retains its value even in times of economic uncertainty.

This product, The Royal Mint Physical Responsibly Sourced Gold ETC (exchange-traded commodity), is an efficient and low-cost means of investing in gold, as every pound invested is backed by a physical holding of gold. This is not the case for some ETFs or ETCs, which are constructed to track changes in the gold price without actually owning physical gold. The main driver of the price of gold is the supply and demand, therefore physically owning the gold is seen as a key liquidity factor for the fund.

Some background on the HANetf and The Royal Mint. HANetf is a platform for providers of exchange-traded products, and they have collaborated with The Royal Mint, which is 100% owned by the UK government and is the oldest company in the UK. This product is the Royal Mint's first exchange-traded product and tracks the spot price of physical gold. A key feature of the product is that all gold will be stored in the Royal Mint's vault in South Wales, which is considered to be one of the most secure locations in the world, and represents a reduction in terrorism risk and act-of-war targeting.

A second key differentiating feature is that this product is backed by post-2019 responsibly-sourced gold, in compliance with the London Bullion Market Association's Responsible Sourcing Guidance. This massively reduces the risk of exposure to gold sourced from conflict zones or mined using child labour. The ETC also holds recycled gold bars. Currently 25-30% of the gold is recycled and HANetf are aiming towards reaching 50%. Recycling gold has a number of environmental and financial benefits: mining process is often destructive; gold is a finite resource so conservation is key; more cost-effective to recycle gold than to mine new gold; reducing reliance on newly mined gold can help stabilise the gold price so can reduce volatility.

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(Source: HANetf)

SUSTAINABILITY IN THE NEWS

Here we highlight snippets from sustainability items in the news from the first quarter of 2023.

Yorkshire Water released plans to install up to 1,000 Electric Vehicle (EV) charging points at its key sites and at its employees homes. The water company will be working with UK Power Network Services to install and maintain the EV chargers. The aim is to encourage EV use by its employees and help those already using them. This latest move is helping to reach its 2030 net-zero target, which was outlined by a route map back in 2020 along with the UK's other major water companies. The route map details how EVs, solar installations and biomethane production can help the sector to reach net-zero. Yorkshire Water last year invested £25million into solar installations across 28 sites, having around 23MW in capacity (1 MW can supply roughly enough electricity to demand for 750 homes at once). (Source: www.edie.net, as at 13th February 2023)

Companies around the UK and globally are starting to face a new moral movement called 'conscious quitting'. This phenomenon involves employees leaving/ willing to leave companies which are failing to share strong values relating to the environment and society. Whilst particularly popular amongst Gen Z and millennial employees, a LinkedIn survey showed results that over 50% of UK employees are willing to leave their company if values do not align with their own, and many willing to take a pay cut to work for a company which does share their values. Research conducted by KPMG highlighted that around 20% of UK office workers would/have turned down job offers where the company did not have strong environmental, social and governance (ESG) values and targets. Younger workforce generations are concerned about the world they will inherit, with global warming, war, economic crisis, pandemics and social division threatening any form of stability. With that in mind, this movement will only continue to grow as employees begin to demand more from their employers and younger generations enter the workforce and move up to more senior positions. (Source: www.theguardian.com, as at 16th February 2023)

TfL published its first climate action plan, aiming to ensure the transport network is reliable, sustainable and safe in the future as weather conditions change due to the climate crisis. London will experience more heatwaves and droughts in summer (similar to those experienced last year in 2022), and warmer and wetter winters. The disruptions to transport due to the storms (February), flooding (August and November) and heatwaves (July) in 2022 are clear examples for the importance of this climate action plan. It outlines several steps to make improvements, hoping to lessen the disruption, improve air quality, and work towards their net zero target. TfL has committed to install sustainable drainage systems to all project designs by the end of 2023, and will make it the standard default option for future projects. Also being looked at is Green Infrastructure, which includes gardens, woodlands, parks, rivers, street trees, green roofs and rain gardens. TfL will be actively seeking to plant more trees and install different forms of green infrastructure across the city. Planting trees and using other green infrastructure will help with shade and cooling during times of heat, reducing run-off during wetter weather and improve air quality. (Source: www.edie.net & tfl.gov.uk, as at 17th March 2023)

Last year the UK Government Net-Zero strategy was ruled unlawful by the High Court. On the 30th March, the UK Government published documents to update The Strategy, including a new Green Finance Strategy, and updates to its Energy Security Plan. The Green Finance Strategy did not include green taxonomy, which will outline what national and regional governments will consider green and which they do not, the taxonomy was originally due at the end of 2022 but has still not been produced. It does include the UK's first set of principles for nature-based investments, a plan to focus on growing the green financial workforce, and plans to support and advise on sustainability reporting standards, with an emphasis on scope 3 emissions. The update to its Energy Security Plan includes the creation of Great British Nuclear, which will oversee nuclear generation, a list of government backed renewable hydrogen projects, and a new heat pump investment accelerator scheme. (Source: www.edie.net, as at 30th March 2023)

CASE STUDY

Energy – a more global perspective

The EU has historically been at the forefront of energy transition. The EU Green Deal was launched in 2020 and aims to make Europe the world's first climate-neutral continent by 2050, through various targets such as reducing greenhouse gas emissions by 55% before 2030, an increase in the use of renewable energy, and a focus on energy efficiency. More recently REPowerEU is the plan to reduce dependence on Russian gas. The EU's relationship with Russian energy supply was already changing before the invasion of Ukraine, but this has increased the urgency.

In August 2022, the US introduced the Inflation Reduction Act (IRA), which is a wide-ranging piece of legislation, but energy transition is central, with $385bn of spending allocated to it. However the plan only squeaked through Congress by 51 votes to 50 and is politically contentious.

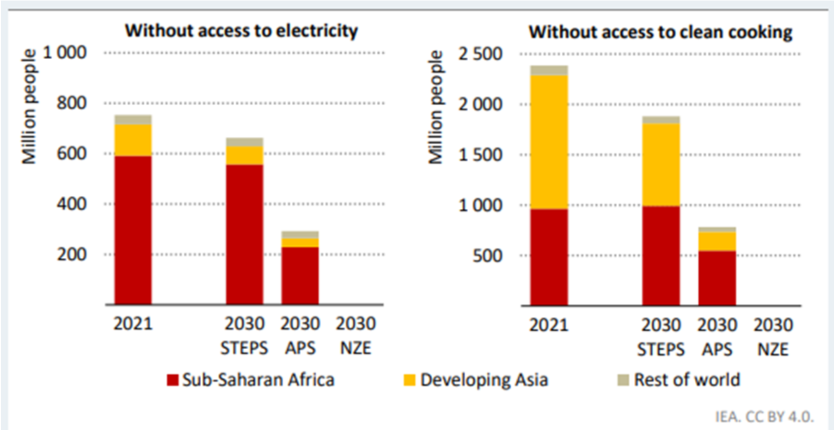
Developed countries have struggled with higher energy prices. 90% of this is estimated to have been driven by higher gas prices, which have reached the equivalent of $250 per barrel of oil (currently $78 per barrel), before falling sharply over the past six months. Many governments were quick to act.

The International Energy Agency (IEA) has tracked around $550bn of government support for consumers globally in 2022. The cost to the UK government alone could be up to £38bn. Next winter may yet be tougher than the last one. But this is a global issue. A combination of pandemic effects and rising energy prices is contributing to food insecurity in developing countries. 75m people who recently gained access to electricity have lost the ability to pay for it, and 100m have lost access to clean cooking.

This chart from the IEA shows the number of people in developing parts of the world without access to electricity or clean cooking fuels over time and against various stated sustainable development goals.

The invasion of Ukraine highlighted the fragility and unsustainability of our energy supplies, in both senses of the word. Energy supply is central not just to GDP growth, but to life. The share of fossil fuels has remained at about 80% of the total for decades.

It is finally showing signs of decreasing, and is forecast to be 75% by 2030 and 60% by 2050. Managing this transition while continuing to grow the global economy is likely to be the key challenge of the next decade.



Well-formulated national strategies and international support are vital to regain momentum on improving energy access after Covid-19 and today's high energy prices

Notes: Sub-Saharan Africa excludes South Africa. STEPS = Stated Policies Scenario; APS = Announced Pledges Scenario; NZE = Net Zero Emissions by 2050 Scenario.