HAWKSMOOR
INVESTMENT MANAGEMENT

SUSTAINABLE WORLD INVESTORS' REPORT

Summer 2023

Inevitability of Change

Welcome to the Sustainable World Investors' Report. Each quarter we introduce the sustainability credentials of a fund eligible for inclusion in Sustainable World portfolios, highlight sustainability items in the news and on this occasion conclude with a piece on the blue economy.

The second quarter of 2023 has been mixed. Over the past three months it has become little clearer what will happen to inflation rates, nor to interest rates. Arguably, the outlook for global monetary policy is less clear now than in the spring. It is therefore unsurprising that the performance of both equities and bonds has been erratic. Certain areas of the equity markets – notably large US technology stocks – have shown stellar rises, whilst bonds have generally struggled.

Sustainability arguments for large US technology companies are complicated. Safety-minded investors though have been tending to run shy of mid-sized and smaller companies, including many of the companies enabling energy transition that also tend to be included in our favoured funds.

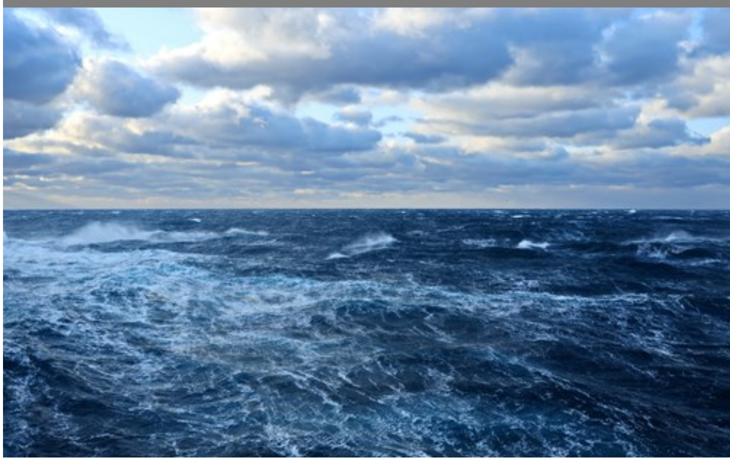
Uncertainty over global monetary policy is showing signs of leading to different sustainability policies and outcomes. The tax benefits of the US Inflation Reduction Act are starting to attract international capital, which is a big step in the right direction. Europe's new Green Deal is an encouraging response in the fight for investment. On the other hand, it is undoubtedly true that the commitment to carbon zero by several governments has waned in the face of prioritising an alleged fight against inflation. This is especially true of the United Kingdom. We are also seeing an unfortunate number of businesses changing their carbon reduction targets.

This is disappointing, but not a surprise. We believe the transition to net zero carbon in many areas is faltering under shorter-term financial conflicts. We therefore remain adamant that markets must adapt to expect accelerating climate change. Weather events will become more frequent and more extreme, while countries and companies alike will become increasingly reliant on carbon-offsetting, rather than reductions in absolute carbon footprints.

Sustainable investment is for the long-term and we strive not to be distracted by shorter-term market trends. The fact that many investors have been shunning certain areas of the markets makes no difference to the long-term appeal of the companies that we invest into. Market moods do not change the need for energy transition, for best corporate governance, nor the inevitability of a changing climate. It is these that will continue to drive the composition of our portfolios.

> "Global temperatures have accelerated to record-setting levels this month, an ominous sign in the climate crisis ahead of a gathering El Niño that could potentially propel 2023 to become the hottest year ever recorded. "

Oliver Milman, Guardian , June 2023 (Source: https://www.theguardian.com/environment/2023/jun/15/record-temperatures-global-heating)



IN THIS ISSUE:

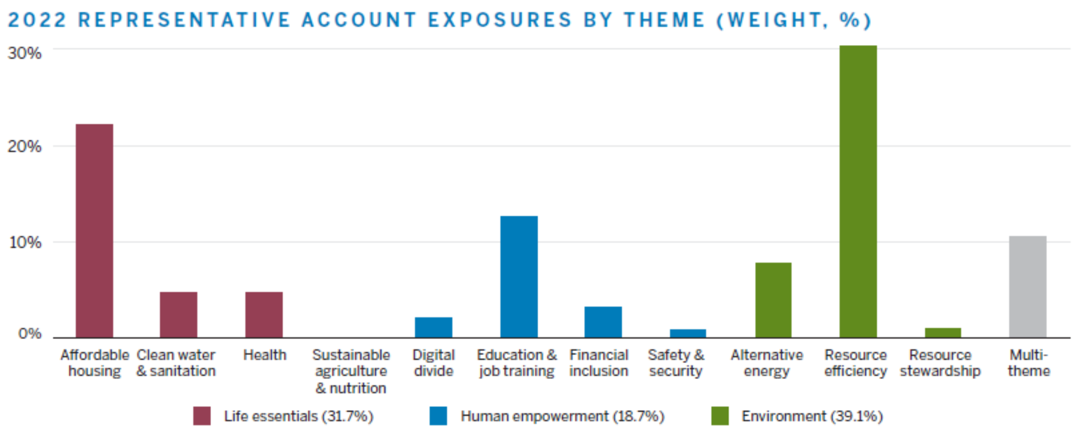
Wellington Global Impact Bond

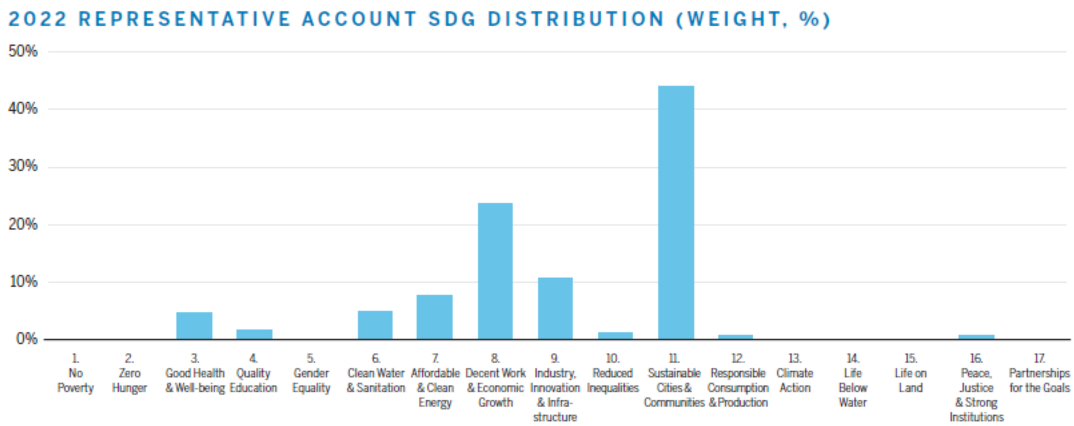
The bond market is by far the world's largest security market and bonds play a key part to our asset allocation. We believe active bond funds are the best way to gain exposure to the different areas of fixed interest within a diverse portfolio. Sustainable bond funds can be tricky and tend to focus on their financials (eg banks) or technology allocations as the bonds and the companies which issue them often have strong ESG and net-zero targets and strategies. In order to have diversification we try to find funds which can offer a differentiating factor, or funds which try and address various positive impact areas.

The Wellington Global Impact Bond fund was added to our list near the beginning of 2022, and we think its an excellent addition to sustainable portfolios in order to gain bond returns and have real positive impact. The fund has the dual objective of ""seeking to outperform global fixed income markets and investing in companies, governments and organisations addressing some of the world's major social and environment challenges".

The three impact areas the fund focuses on are Life Essentials (Affordable housing, Clean water and sanitation, Health, and Sustainable agriculture and nutrition), Human Empowerment (Digital divide, Education and job training, Financial inclusion, and Safety and Security), and Environment (Alternative energy, Resource efficiency, and Resource stewardship). The fund has three rules for the impact, it must be material, additional and measurable. Material meaning 90% of the proceeds must be going towards the impact theme, the additional rule is that the fund mostly wants to finance something new, and whatever they do must have a measurable impact.

One way impact funds, including Wellington look to measure these impacts is by aligning them with the UN Sustainable Development Goals (SDGs). Some of the SDGs are more investable than others – they are aimed at Governments rather than corporates – but Wellington aim to map their impact themes on to the SDGs, and on to Wellington's Impact thresholds, including measurability. On affordable housing for example, the UN estimates that around 40% of the world's population will need improved housing by 2030, leading to demand for 96,000 new housing units per day. Wellington can track and measure the progress of their underlying investments against these kinds of targets.





(Source: Wellington Management)

SUSTAINABILITY IN THE NEWS

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

The Adverting Standards Agency has banned a Shell advert and an Etihad Airlines advert on greenwashing grounds. The Shell video and billboard showed electric vehicle (EV) infrastructure and wind turbines with a tagline "the UK is ready for cleaner energy". The ASA decided to rule in favour of banning the ad as it would mislead the public into thinking low carbon energy was a more prominent part of the energy products Shell invested in than it actually has (~1% of its investments were put into renewable energy and EVs in the year before the ad came out). The Etihad Airlines Facebook advert stated that by flying with them passengers were "making a conscious choice for the planet" and that due to reduced single-use plastics the flights would have a "smaller footprint". Adverts like these are becoming more frequent with large emitters trying to downplay the damaging impacts the businesses and their activities have on the environment. With the rise of social media platforms there is increasingly more misinformation about climate change. Platforms such as TikTok and Pinterest have begun introducing misinformation policies on climate change, similar to those which were applied across most social media platforms during the pandemic about public health and medicine misinformation. (Source: www.edie.net)

The Department for Transport (DfT) published its action plan for 2023 and 2024 under the Jet-Zero Strategy to decarbonise the aviation sector. The Jet-Zero Strategy published in summer 2022 has a net-zero goal of 2024 for airport operations and domestic flights, and a 2050 goal for international flights. The plans include that a new Low-Carbon Fuels Strategy to be published later this year, with a specific supply of alternative fuels (SAFs) mandate. The strategy will hopefully give clear detail on what counts as a low-carbon fuel and how the scaling up of the supply of these fuels will work in the UK. Many environmental groups don't feel the Jet-Zero Strategy is enough, the Climate Change Committee (CCC) had recommended that there should be a cap on airport expansion, which the government ignored, and recent research has shown the practicalities of scaling SAFs is not as hopeful as originally thought, The Royal Society concluded that decarbonising the aviation sector will not have one simple answer apart from decreasing volumes of travel or carbon offsetting. (Source: www.edit.net & www.gov.uk)

Two major supermarkets have recently delivered fully electric delivery fleets for entire stores. Sainsbury's announced in May one of its superstores in London now has a fully electric fleet and 100% renewable energy will be used to charge the delivery vans. The Nine Elm store makes around 2,000 home deliveries each week so this has the potential to mitigate 57 tonnes of CO2 a year. Sainsbury's net zero operational target is 2035 and have committed to an entire electric fleet for all stores by then. Asda announced in June that is now has fully electric fleet at three of its superstores, one in London, Gillingham and Sheffield. Together the electric fleet provides for over 345,000 households and has the potential to mitigate over 400 tonnes of CO2 a year. There are plans to have converted two more stores to fully electric delivery vehicles by the end of the year. The food retailer has set the goal to remove diesel vehicles from its home delivery fleet by 2028. Asda has also committed to reduce its greenhouse gas emissions by 50% by 2030, and net-zero by 2040. (Source: www.edie.net)

Vapes in the UK are fast becoming a health epidemic but a new light is being shone on the environmental detriment the disposal vapes are having. A coalition of 18 groups is urging the government to ban disposable vapes to prevent excess plastic and battery waste. Research has shown a minimum of 1.3 million disposable vapes are thrown away every week in the UK. Disposable vapes contain single-use plastic, nicotine and lithium-ion batteries, and a letter sent by the coalition to the Environmental Secretary and the Health Secretary stated that if the lithium used in disposable vapes were redirected to the EV industry it would be equivalent to the amount needed for 1,200 electric cars and vans. Research has also found that 7% of 11-17 year olds are regular vape users and around 12% have tried vaping, and 52% of that age group use disposable vapes. A different organisation has suggested instead of advertising as disposable vapes and work to make the recycling infrastructure better for these products. The health and environmental concerns are growing as there is no long-term research in the health impacts or environmental damage these can cause. (Source: www.edie.net & www.news.sky.com)

CASE STUDY

The Blue Economy

The oceans are the planet's largest ecosystem (covers 71% of the Earth's surface). It is addressed by the Sustainable Development Goal (SDG) 14 – life below water, and the goal is to conserve and sustainably use the oceans, sea and marine resources for sustainable development. It is the least well-funded of the 17 SDGs.

The ocean absorbs around a quarter of global CO_2 emissions, but these CO_2 emissions acidify the ocean. This plus more familiar issues such as ocean warming, over-fishing, and plastic pollution – over 17 million metric tonnes of plastic entered the ocean in 2021 and is predicted to at least double by 2040 – are impairing the ocean's capacity to reduce climate change.

There are also social impacts. 90% of the world's fishers are in small-scale fisheries and need support, especially in the wake of the pandemic. They are often marginalised, not just by larger scale fishing, but also competing local interests such as tourism.

This has led to the emergence of the idea of the "Blue Economy", which revolves around harnessing the potential of oceans and other water resources, while ensuring environmental sustainability. It represents around 2.5% of global GDP (estimated at $1.5tn but forecast to double by 2030) and is a holistic approach to ocean based economic development that aims to balance economic growth, social inclusion and environmental protection.

Pursuing these goals will need more funding and this in turn has led to the rise of blue bonds. Similar in concept to green bonds, and also known as "use of proceeds bonds", blue bonds are raised with specific sustainable aims and projects relating to oceans.

As well as sustainable fishing and aquaculture, there is huge potential for renewable energy from oceans including offshore wind farms, wave and tidal energy. Marine biotechnology is also leading to the discovery of new medicines and other industrial applications. All these were almost non-existent even 20 years ago.

But it is early days and many issues arise. There is relatively little funding, and still no common understanding or definition of what a sustainable ocean-based economy really is, much of it is open to interpretation. In order to be transformative, it would need ocean-based industries to focus on more than economic profit, and also include human well-being objectives, and environmental sustainability. In turn this would mean addressing social inequalities, providing basic needs, possibly providing alternative livelihoods for people in coastal areas, particularly marginalised groups, women and younger people.