HAWKSMOOR
INVESTMENT MANAGEMENT

SUSTAINABLE WORLD INVESTORS' REPORT

Autumn 2023

Two Steps Forward, One Step Back

Welcome to the Sustainable World Investors' Report. This quarter we highlight sustainability items in the news and on this occasion conclude with a deep dive piece on gender bonds, a term we came across during the quarter.

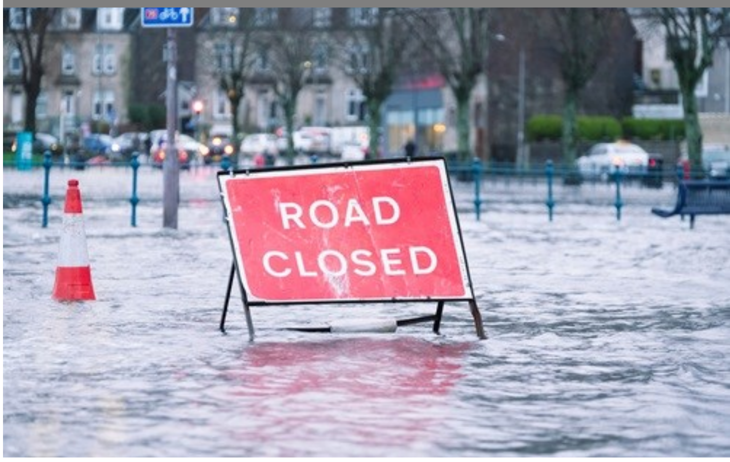
2023 has continued to be a challenging year for many sustainable investment strategies. The renewed enthusiasm of many investors for oil and gas in the aftermath of Russia's invasion of Ukraine has not yet abated, despite its illogicality. This highlights one of the key challenges of decarbonisation: how to balance the increasingly popular quest for short-term profits from hydrocarbons, whilst knowing that climatic targets for reductions in greenhouse gas emissions are getting pushed further and further back.

The performance of the UK equity market continues to be distorted by the performance of the two oil majors, Shell and BP, both of which are enjoying a very strong year. This is largely understandable in the context of the rise in the oil price of over $20/bbl over the summer, but it also distracts from the necessity to break this dependence. This is not only as part of climate control, but also the geopolitical necessity to reduce the risk of reliance on imported fossil fuels, from wherever. It is not yet happening, but it remains true that the events in Eastern Europe and latterly in the Middle East should accelerate investment into renewable energy.

This dynamic is not assisted by the political cycle. The United States faces a presidential election next year that threatens to be even more divisive than 2020. The two parties have made climate an electoral issue, with no sign that this will change at local or national level. In the United Kingdom, we are seeing mixed signals from the incumbent government. The delay in banning exclusively internal combustion powered cars to 2035 makes sense to us and ought to mean that the infrastructure needed to facilitate this is built in a more sustainable manner. It is also clear that the government believes there are votes in at least appearing to be motorist-friendly. It was therefore encouraging that there have not been changes to the required quotas of ZEVs (zero emission vehicles, or electric vehicles) that are to be implemented between now and 2030. This supports the investments of the motor manufacturers into ZEVs and will require vast investment, both public and private, to enable this.

"Weather is the symptom of climate. The change in the climate, which the world is so reticent to address, is going to create more and more extreme weather... It is the inevitable path that Paris 2015 was supposed to address."

Jim Wood-Smith , August 2023 (Source: https://www.hawksmoorim.co.uk/research/articles/predictable-predictions/)

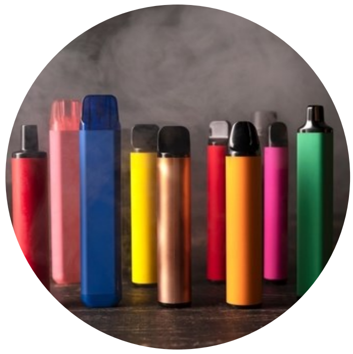


IN THIS ISSUE:

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

Every year Surfers Against Sewage release a list of companies responsible for the majority of litter across mass clean-ups in the UK, known as the 'Dirty Dozen' list. This year the top 12 were responsible for 70% of the litter collected, and the name at the top of the list repeatedly has been Coca-Cola and that is no different this year, the company and its subsidiaries were 17% of items collected. Other companies included in the list are McDonald's, PepsiCo, Mondelez International (subsidiaries include Cadbury's), Tesco, Nestle, Heineken, Carlsberg Group, Mars, Red Bull, Haribo, and Anheuser-Busch InBev (a brewer of beers such as Stella Artois, Leffe, Corona, and Budweiser). The litter comes from 499 clean ups from UK cities, beaches, rivers and countryside. All items are collected and then separated by volunteers. To help reduce littering a Deposit Return Scheme (DRS) was promised by the government in 2018, but was delayed due to covid till 2025. A DRS can be used as a way of encouraging people to recycle drinks containers by charging people for the bottle or can the drink comes in and when consumers return the bottle to a collection point to be recycled the money is returned. Currently 13 other European countries have successful DRS's. (Source: www.edie.net)

Previously we had written about disposable vapes fast becoming health and environmental concerns with many groups calling for the government to ban them. The Scottish First Minister recently delivered a programme to the Scottish Government which included a proposed ban of disposable vapes. Disposable vapes contain single-use plastic, nicotine and lithium-ion batteries, which make them tricky to recycle, and in a lot of cases consumers litter them or incorrectly dispose of them. The Scottish Government sees this as "not just an issue for Scotland" so will look to work with Westminster, Wales, and Northern Ireland to create action on this issue. The UK government has stated by the end of the year it will have put forward measures for reforming Waste Electrical and Electronic Equipment Regulation, which will include waste from disposable vapes, but no bans have been suggested. Research has shown a minimum of 1.3 million disposable vapes are thrown away every week in the UK and 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. These statistics are set to grow and popularity of disposable vapes has increased. (Source: www.edit.net & www.gov.uk)



Regulators have approved the Rosebank oil and gas project in the North Sea. The project is located West of Shetland and is estimated to produce at its peak "69,000 barrels of oil and 44million cubic feet of gas per day". Rosebank has been a controversial project, and although the UK will still require oil and gas until it achieves net-zero, many green groups, corporates and MPs opposed this project getting approval and will see this has a step backwards. Actually around 50 MPs from all major parties urged the Energy Secretary to block the project. Rosebank is one of the largest oil fields in the North Sea, and so has attracted a lot of attention and criticism, but earlier this year the Prime Minister gave the go-ahead for a new round of licencing and there will be around 100 licences for new or expanding fields. The two main reasons for exploiting the UK's largest oil field and this new round of licencing are to improve energy security and job security in the UK; Ithaca Energy has stated that during construction of Rosebank up to 1,600 jobs will be supported. All new oil and gas licenses are subject to scrutiny by the regulator, including an environmental assessment process, but some major arguments against the project are that it could emit 200million tonnes of CO_2 and it won't lower energy bills. In fact most of the oil will be exported to be refined abroad, as with all other North Sea projects, and then sold back to the UK at market prices, and since gas is an internationally traded commodity fuels are sent to the highest bidder first and UK cannot ringfence its production of gas. The reliance on fossil fuels is an ongoing issue globally, but we do need fossil fuels currently to help transition to greener energy. (Source: www.edie.net)

Gender Bonds

Green bonds and blue bonds are terms which have become widely used in the investment industry in recent years, however social bonds have been around for just as long and this new type of bond falls into that broad category.

So what are gender bonds?

Sustainable Development Goal (SDG) 5 calls for gender equality and the empowerment of all women and girls, and has a deadline of 2030, but is not on track to be met. Covid, climate change, rising economic and political insecurity have not only stalled progress on gender equality, especially in developing countries, but may even be reversing it. Gender bonds are social impact bonds designed to support projects that promote gender equality. The main aim is to address issues such as gender-based discrimination, violence against women, economic empowerment and women's access to education and healthcare.

Gender bonds are "use of proceeds bonds" which means issuers commit to transparency and detailed reporting on both the use of proceeds and their impact. Projects can vary widely but include: women's entrepreneurship, gender inclusive work-force development, microfinance for women, support for survivors of gender based violence and women's education and health. Gender bonds have to focus exclusively on gender equality, but wider social and sustainability bonds which pursue gender equality as part of a wider goal are also available. Data on gender bond issuance is scarce as it tends to be buried within broader categories. However only 1% of sustainable bonds reference being attached to SDG 5.

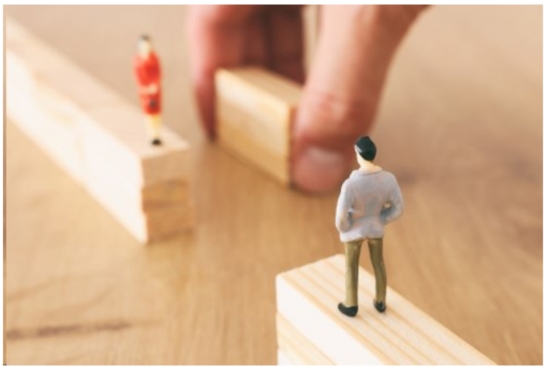
What drives demand for these bonds?

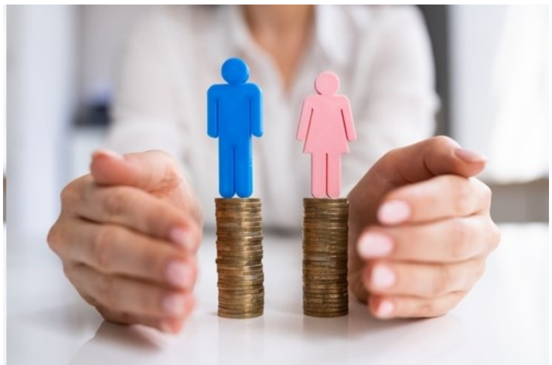
A recent white paper on climate change ("Boosting Women-Led Climate Adaptation: A WiSER Perspective", WiSER = Women in Sustainability, Environment and Renewable Energy) highlighted the disproportionate effect of climate change on women, particularly in the global south. Climate change is already contributing to increases in social and economic tension, and causes increased displacement of people. It is estimated that 80% of people displaced by climate change are women. Forcibly displaced and stateless people have more than doubled in the past decade and now affects over 1% of the world population (not all of this is climate change). Increased conflict and displacement means decreased safety for women – sexual violence, human trafficking and others. In spite of this, Oxfam research estimates only 1.5% of climate related development assistance addresses gender equality as a primary objective, and two-thirds of projects do not address gender equality at all.

Oxfam reported women lost around 64m jobs globally in 2020, equivalent to $800bn ($12,500 per person, which may be another story itself), due to covid. McKinsey report women are 39% of the workforce, but account for 54% of job losses. Covid also had knock-on effects on female healthcare, with women more significantly affected. Many women have in-person jobs, or unpaid roles caring for others, putting them more at risk. The Hologic Global Women's Health Index shows only 12% of women globally said they had been tested for cancer in the previous 12 months in 2021, in spite of the disease killing 10m people worldwide. One billion women globally have no access to professional health care.

Before covid, an estimated 388m women were living in poverty – the pandemic is believed to have added another 47m or so. In many regions, women have a greater responsibility for gathering food and water. Often the biggest employer of women in lower income countries is agriculture. Young girls often leave school to help their mothers. UNESCO estimate 11m girls dropped out of school during the pandemic and may never go back. UNICEF estimate around 129m girls are out of school globally.

Due to historic inequalities, women are underrepresented at all levels of environmental decision making, but a 2019 study found that national parliaments with greater female representation pass more rigorous climate policies. Improving female access to education as one path towards balancing these historic inequalities is key.





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