

Published October 2021

The Good Investment Review

#FindingGood



GOOD WITH MONEY
MORE MONEY, FEWER PROBLEMS

About Good With Money

Good With Money is a money website with a difference: it is all about how your money can do more good, as well as how you can be better at managing it. With blogs, webcasts, podcasts, downloadable guides and a weekly newsletter, you can stay up to date with the latest ways to line your pocket and look after the planet.

About 3D Investing

The investment industry has seen a seismic shift towards Responsible Investment, with a multiplicity of funds claiming to invest positively or with impact. The growth in the market and diversity of approaches being applied has led to widespread accusations of “greenwashing”.

Using extensive and in-depth evidenced based analysis, we assess Responsible Investment (RI) funds against the 3D Framework of ‘do good’, ‘avoid doing harm’ and ‘lead change,’ the areas which we believe are critical to affecting positive change in relation to the world’s most pressing environmental and social challenges.

Do good

Investment in companies offering solutions to global social and environmental challenges and evidence of impact.

Avoid doing harm

Avoidance of investment in companies making a significant negative contribution to society and the environment and those exposed to controversies.

Lead change

Advocacy and engagement with investee companies both individually and through co-operation with other investors and change activists to encourage best practice and inform opinion.

We believe that this will allow investors to make the most informed investment decision as we are providing an accurate representation of how a fund actually fares from a Responsible Investment perspective. Thus, enabling them to avoid the ‘greenwash’ and choose a product which best suits their convictions, aligning their daily actions and choices in respect of society and the environment with how their savings are invested.

3D Investing is a trading name of Ethical Money, which is part of Square Mile Investment Consulting and Research, an independent investment research business that works in partnership with regulated professional financial services firms. Focusing first and foremost on in depth, qualitative fund research, Square Mile provide tailored support and investment services for financial advisers, institutions and asset managers.

Welcome

Welcome to the eleventh edition of the Good Investment Review, in which we will be exploring climate change. Namely, the threat it poses and the potential opportunities for investors and the financial services industry to affect positive change.

The existence and threat of climate change is no longer up for debate, and the verdict is unequivocal: change is needed. The sheer expanse of evidence has made it abundantly clear that the symptoms of climate change are rife; unprecedentedly high temperatures, disappearing glaciers and extreme weather events. Unfortunately, the destructive implications of climate change are not limited to the environment but are also threatening livelihoods. Climate change has further deepened the existing disparities felt in our world's population, with those bearing the worst of the climate crisis often being those who have contributed the least to the problem.

Experts have warned that turning a blind eye and continuing with 'business as usual' will have disastrous and irreversible effects; finding a solution is the only option. The fast-approaching UN Climate Change Conference, commonly referred to as COP26, provides an opportunity to do so, to help disseminate the need for urgent global coordinated action and to hold the higher powers accountable for their commitment to the race to net zero.

These themes are further explored by our sponsors, with **Impax Asset Management** emphasising the importance of the upcoming COP26 conference in

achieving global cooperation, whilst also highlighting the most important factors to consider when choosing funds aligned with a future, net zero economy.

Jupiter Asset Management identifies the economic risks one may be exposed to when failing to adopt a sustainable investing strategy, and the importance of understanding how capital is allocated in this transformed landscape. **M&G Investments** further explores the potential solutions and describes how adopting a circular economy as part of your business model can be beneficial not only to the planet, but to your own finances.

The enormity of the task of tackling climate change requires immediate global collaboration and whilst the world's attention is focused on larger companies, **Montanaro** notes the importance of smaller companies in meeting climate goals, outlining their integral role in the race to net zero.

Whilst climate change poses a huge threat, it has also generated opportunity. Aligning fixed income portfolios to net zero emissions objectives represent a unique opportunity for active managers. **Morgan Stanley Investment Management** investigates climate-aware fixed income strategies, and the importance of providing debt financing to governments, corporations and other agencies to deploy towards sustainable and inclusive infrastructure, products and services. **Pictet Asset Management** and **Schroders** continue by outlining the opportunities in renewable energy, and the essential part that adopting carbon pricing schemes could play in smoothing the path to net zero.

Whilst much attention in the climate change debate is centred on carbon dioxide, **Regnan** further explores the other major contributors to climate change and offer insight into how to combat the potential warming effects of methane. **Storebrand Asset Management** continues by emphasising the importance of science-based targets and how an independent assessment in line with climate science can help to standardise decarbonisation plans and, in turn, tackle climate change.

Finally, **Wellington Management** shares some of the environmental and climate-related innovations we are seeing across the impact investing universe including alternative energy, resource efficiency and resource stewardship.

As always, please contact us if you would like to discuss any aspects of this review.

Who's who in the review

This review is a collection of market statistics, commentary and information on the Responsible Investment space. It is supported by our sponsors and partners, asset managers who contribute valuable insight on this ever-evolving landscape.

IMPAX Asset Management

 **PICTET**
Asset Management


JUPITER
ASSET MANAGEMENT

Regnan

 **M&G**
Investments

Schroders

MONTANARO
ASSET MANAGEMENT

 **storebrand**
Asset Management

Morgan Stanley
INVESTMENT MANAGEMENT

WELLINGTON
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Differentiating between ESG and Responsible Investment

We firmly support the embrace of ESG and Responsible Investment, however we are aware that there has been inconsistency when it comes to both the language and the approaches applied. Consequently, there have also been differences in the interpretation of what can be very subjective topics and what they constitute in terms of investment, as well as the terminology used.

Therefore, we felt it important to clarify how we think about and define ESG and Responsible Investment.

ESG integration should be seen as an input into an investment process, rather than something which produces an output. The integration and active consideration of ESG analysis is a way for fund managers to mitigate risks and identify opportunities that could have an impact upon a company's share price or continued viability.

We believe ESG analysis to be one of many 'hygiene' factors that can be integrated into the investment process applied to any and all funds.



Environmental

- Carbon emissions
- Energy efficiency
- Water scarcity
- waste management
- Pollution mitigation



Social

- Diversity and workplace policies
- Labour standard
- Supply chain management
- Product safety
- Community impact



Governance

- Board diversity
- Executive compensation
- Political contributions
- Bribery and corruption
- Accounting and reporting

Responsible Investment is where managers actively and intentionally seek to do good, avoid doing harm and lead change by investing in companies which are helping to meet the world's most pressing challenges, whilst avoiding or seeking to improve those which perpetuate our problems.

We see Responsible Investment as an umbrella term from which stems a spectrum of differing investment approaches, ranging from those which exclude certain securities or sectors to those that are focused on delivering a positive and measurable impact to society and/or the environment.

Responsible Investment



Ethical Exclusions

An ethical exclusions fund manager seeks to avoid industries and company practices that cause harm to people or the planet.



Responsible Practices

A responsible practices fund manager considers the operational practices of investee companies and supports 'best practice' and the use of engagement to encourage companies to improve their environmental and social performance.



Sustainable Solutions

A sustainable solutions fund manager seeks to invest in companies that are providing solutions to social and environmental challenges through their core products and services in the belief that this will realise long-term financial benefits.



Impact Investing

An impact fund will have clear intent to make a wider positive social or environmental impact. The fund will be substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

Market Update

Assets under management (AUM) in the 3D Investing universe of Responsible Investment funds as of 31st August 2021 was

£280 Billion

This largely reflects ongoing fund launches, with 34 funds having been added to the 3D Investing universe over the last six months. This brings the total to

348 Funds

This is a 10.8% increase since the last issue, and it is clear that there has been no let up at all in the pace of change.

There has been no let up in the impetus behind Responsible Investment with multiple fund launches of varied types. Most notable has been the launch of a slew of multi-asset funds, a trend which seems likely to continue. These are 'all-in-one' solutions, with each fund in the range being managed according to a given risk profile. These largely adopt a strategy of an element of ethical screening combined with an ESG tilt and a minority allocation to sustainable solutions.

The abrdn range invests in collective investments including ETFs and open-ended funds. abrdn has also added two climate funds to its existing multi-asset climate solutions fund. These comprise a global equity fund focused on investing in companies providing climate solutions, and a bond fund that follows a threefold approach of investing in leaders in emissions reduction, those facilitating adaptation to a net zero world, as well as climate solutions providers. Given the attention that climate issues have attracted, it is unsurprising that a number of other providers have launched new funds with a climate theme. For example, JP Morgan Asset Management has responded with a global equity fund investing in climate solutions, whilst GAM has entered the market with a climate bond fund that focuses on financial companies issuing bonds to tackle climate issues and also attract a yield premium to the green bond market as a whole. One of the more distinctive offerings is Schroders Emerging Market Climate Bond fund. This has a wholesale focus on developing economies where the need is particularly acute. Schroders recently acquired Blue Orchard, a micro finance specialist with many years of impact investing experience in fixed interest markets in emerging markets.

The third major theme to emerge over the past six months is that of funds being restructured in response to the Sustainable Finance Disclosure Regulation (SFDR). Existing funds have been adapted and ESG policies strengthened to qualify for Article 8 or 9. The changes to the M&G Global Select and Pan European funds are relatively modest, and the changes are more a case of formalising policies which were already followed. The restructuring of the Schroder Responsible Value UK Equity fund is a much more fundamental change, with the mandate having been changed to invest in global ESG leaders that are undervalued. Likewise, the Schroder Core UK Equity fund has been restructured to invest in five sustainability themes and the name has changed to the Schroder UK Sustainable Value Equity Fund. The Schroder Global Cities fund has also changed its mandate to focus on environmental factors, identifying the most sustainable cities according to a proprietary framework.

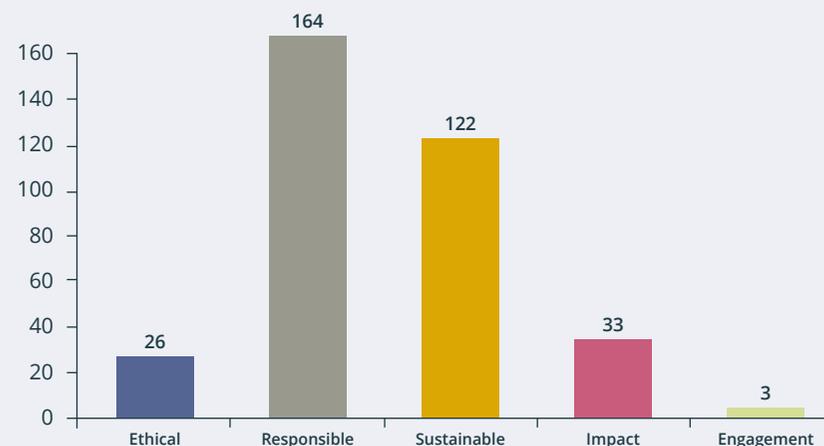
Health funds are hardly new, there are several long-standing biotech and healthcare funds, but none of these funds conduct robust responsibility analysis of the companies in their portfolios. The M&G Better Health Solutions fund is therefore a new initiative since it conducts rigorous impact reporting and analysis of all holdings. Furthermore, the portfolio includes companies improving wellbeing as well as those directly involved in the provision of healthcare.

| Fund Name | Analyst Comment |
|--|---|
| Aberdeen Standard SICAV I - Climate Transition Bond | Invests in 'climate transition' bonds including emissions reducers, facilitators of adaptation and providers of climate solutions |
| Aberdeen Standard SICAV I - Global Climate and Environment Equity | Largely invests in climate solutions with an element in climate leaders in terms of their operational practices |
| ASI MyFolio Sustainable I - V | A range of 5 risk targeted multi-asset funds, largely investing in ESG screened funds |
| BMO Sustainable Universal MAP Defensive - Adventurous | A range of multi-asset funds with sustainability mapping, ESG screening, engagement and ethical exclusion |
| Federated Hermes Sustainable Global Equity | Largely invests in ESG leaders with an element in sustainable solutions providers |
| GAM Climate Bond | Largely invests in financials with proceeds being used for climate solutions |
| GAM Sustainable Local Emerging Market Bond | An emerging market bond fund with an ESG tilt |
| HANetf ICAV Solar Energy UCITS ETF | An ETF investing in solar stocks |

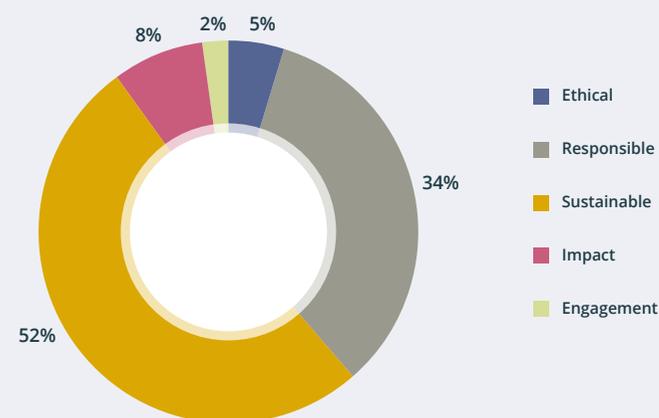
| Fund Name | Analyst Comment |
|---|--|
| Invesco Summit Responsible 1 - 5 (UK) | A range of 5 risk targeted multi-asset funds adopting an ESG tilt |
| JPM Climate Change Solutions | An equity fund investing in climate solutions |
| M&G Better Health Solutions | A health themed impact fund embracing both wellbeing and healthcare |
| M&G Global Sustain Paris Aligned | An existing fund that has had additional ESG screens applied |
| M&G European Sustain Paris Aligned | An existing fund that has had additional ESG screens applied |
| Pimco Climate Bond | Invests in climate solution related bonds, including but not restricted to, green bonds |
| Rathbone Greenbank Total Return, Defensive Growth, Strategic Growth, Dynamic Growth | A multi asset range of portfolios adopting a combination of exclusions, ESG screening and sustainability themes |
| Rize Environmental Impact 100 Ucits ETF | An ETF investing in 100 environmental solution providers, with weightings determined by purity of exposure. |
| Royal London Global Sustainable Credit | Invests in ESG screened corporate bonds |
| Schroder Global Cities | A re-working of an existing real estate fund that focuses on sustainability leaders |
| Schroder Global Value Sustainable Equity | The Schroder Responsible Value UK Equity Fund has been restructured to invest in global ESG leaders that are undervalued |
| BlueOrchard Emerging Markets Climate Bond | Invests the proceeds of bonds in climate solutions in emerging markets |
| Schroder UK Sustainable Value Equity | The Schroder Core UK Equity Fund has been restructured to invest in five sustainability themes |

Funds adopting a responsible practices and sustainable solutions approach are by far the most prevalent, both in terms of assets under management and by number of funds. It's also notable that assets under management in impact funds in the 3D Investing universe is now almost double that of ethical funds.

Fund Distribution by Approach* (Number of funds)



Fund Distribution by Approach* (Assets under management)



* Approaches: **Ethical** – avoiding companies on the basis of pre-determined ethical criteria. **Responsible** – mitigating harmful impacts by supporting social and environmental best practice. **Sustainable** – focus on investment in environmental or social solutions. **Impact** – must be intentional and measure the impact as well as investing in companies that make a positive impact. **Engagement** – effecting change through dialogue with management.

Financial performance

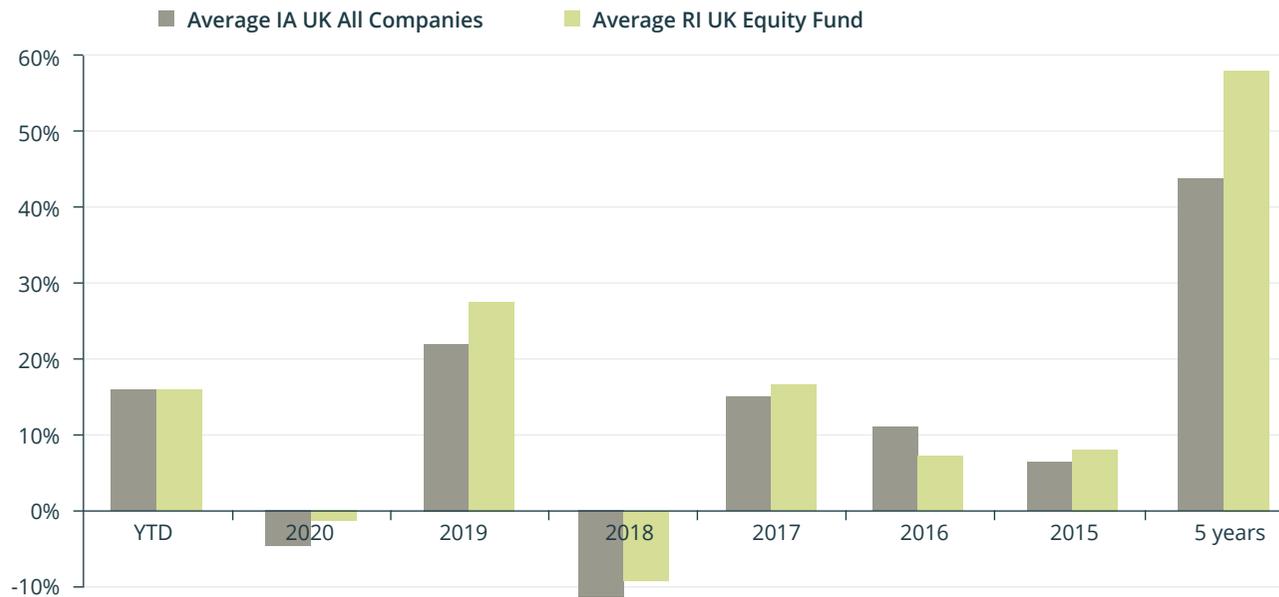
We believe that it is important to compare like with like, so we have analysed actively managed funds, which are not just focused on one theme, looking at the three of the most commonly used sectors – namely IA UK All Companies, IA Global and IA Sterling Corporate Bond sectors. We have compared Responsible investment (RI) funds within each sector, looking at discrete annual periods to give a better picture of the consistency of performance, as well as the cumulative five-year performance, against the sector as a whole. The evidence continues to show that positive impact need not come at the expense of financial returns, and, if anything, investing for positive impact can improve returns.

IA UK All Companies

| Fund Name | YTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 5 years |
|--|-------|--------|-------|--------|-------|-------|-------|---------|
| Aegon Ethical Equity | 19.7% | -0.8% | 31.3% | -17.4% | 13.5% | -0.3% | 13.6% | 46.8% |
| ASI UK Ethical Equity | 21.4% | -8.4% | 33.0% | -14.5% | 24.5% | | 15.6% | 62.1% |
| ASI UK Impact Employment Opportunities Equity | 13.8% | -6.0% | 41.2% | | | | | |
| ASI UK Responsible Equity | 18.4% | 1.9% | 32.8% | -5.6% | 13.1% | 22.1% | -2.7% | 77.8% |
| BMO Responsible UK Equity | 18.1% | -5.1% | 23.2% | -6.9% | 19.8% | 8.4% | 7.4% | 56.3% |
| Castlefield BEST UK Opportunities | 20.5% | -5.5% | 17.1% | -0.8% | 9.8% | 3.8% | 7.4% | 44.2% |
| EdenTree Responsible and Sustainable UK Equity | 16.2% | -5.6% | 26.7% | -12.2% | 12.8% | 4.5% | 8.5% | 38.6% |
| Family Charities Ethical | 11.0% | -13.2% | 16.6% | -6.1% | 9.1% | 14.1% | -2.8% | 19.9% |
| Jupiter Responsible Income | 15.7% | -7.6% | 21.9% | -12.4% | 9.2% | 7.7% | 1.6% | 28.4% |
| Liontrust Sustainable Future UK Growth | 16.9% | 5.3% | 30.2% | -6.7% | 20.7% | 8.0% | 9.8% | 83.3% |
| Liontrust UK Ethical | 16.1% | 2.8% | 37.8% | -7.3% | 22.5% | 4.5% | 10.6% | 90.7% |
| Ninety One UK Sustainable Equity | 11.2% | 8.5% | 33.6% | | | | | |
| Premier Miton Ethical | 19.5% | 10.7% | 38.7% | -16.8% | 18.8% | 4.0% | 14.1% | 90.2% |
| Royal London Sustainable Leaders Trust | 17.9% | 3.3% | 29.5% | -2.0% | 15.8% | 8.8% | 9.9% | 80.3% |
| Schroder Responsible Value UK Equity | 19.2% | -14.5% | 10.2% | | | | | |
| Threadneedle UK Sustainable Equity | 13.5% | -0.5% | 21.6% | -7.0% | 14.0% | 6.7% | | 44.8% |
| Average IA UK All Companies | 16.8% | -6.5% | 22.7% | -11.0% | 14.3% | 11.2% | 5.9% | 44.2% |
| Average RI UK All Companies | 16.8% | -2.2% | 27.8% | -8.9% | 15.7% | 7.7% | 7.7% | 58.7% |

 Outperformed sector average

Data as at 31st August 2021. Total return with net income re-invested.
Source: Financial Express



The relative performance of Responsible Investment UK equity funds compared to the UK equity market as a whole has, by and large, been strong, with continued relative outperformance since the Covid-19 pandemic. The absolute performance of UK equity funds has been weaker than their global counterparts over the past 5 years, with concerns over Brexit and now coronavirus, hanging heavy on the market. However, Responsible Investment funds have delivered significantly better returns, on average, over this period. The small sample size must be treated with caution and the outperformance can be, to some extent, explained by the large underweight in large fossil fuel companies and which have performed relatively poorly but which make up a significant portion of the FTSE100 Index but which are largely absent from Responsible Investment funds in the sector.

Data as at 31st August 2021. Total return with net income re-invested.

Source: Financial Express

IA Global

| Fund Name | YTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 5 years |
|--|-------|-------|-------|-------|-------|-------|--------|---------|
| AB SICAV I - Sustainable Global Thematic Portfolio | 18.2% | 34.6% | 24.5% | -4.6% | 24.1% | 18.2% | 8.0% | 140.7% |
| Aegon Global Sustainable Equity | 14.0% | 57.6% | 38.2% | -8.1% | 20.2% | | | 182.0% |
| Alquity Future World Global Impact | | | | | | | | |
| ASI Global Ethical Equity | 17.1% | 14.6% | 20.1% | -5.2% | 13.5% | 31.1% | -10.1% | 82.3% |
| Baillie Gifford Positive Change | 23.9% | 80.1% | 25.9% | 5.4% | | | | |
| BMO Responsible Global Equity | 16.3% | 20.8% | 29.4% | -3.7% | 17.7% | 23.2% | 9.3% | 119.1% |
| BMO Sustainable Opportunities Global Equity | 16.6% | 22.5% | 29.5% | -1.8% | 17.9% | 21.9% | | 128.8% |
| BNY Mellon Sustainable Global Equity | 15.0% | 19.6% | 28.1% | | | | | |
| Davy ESG Equity | 18.2% | 13.5% | 23.7% | -0.5% | 11.3% | | | 94.5% |

 Outperformed sector average

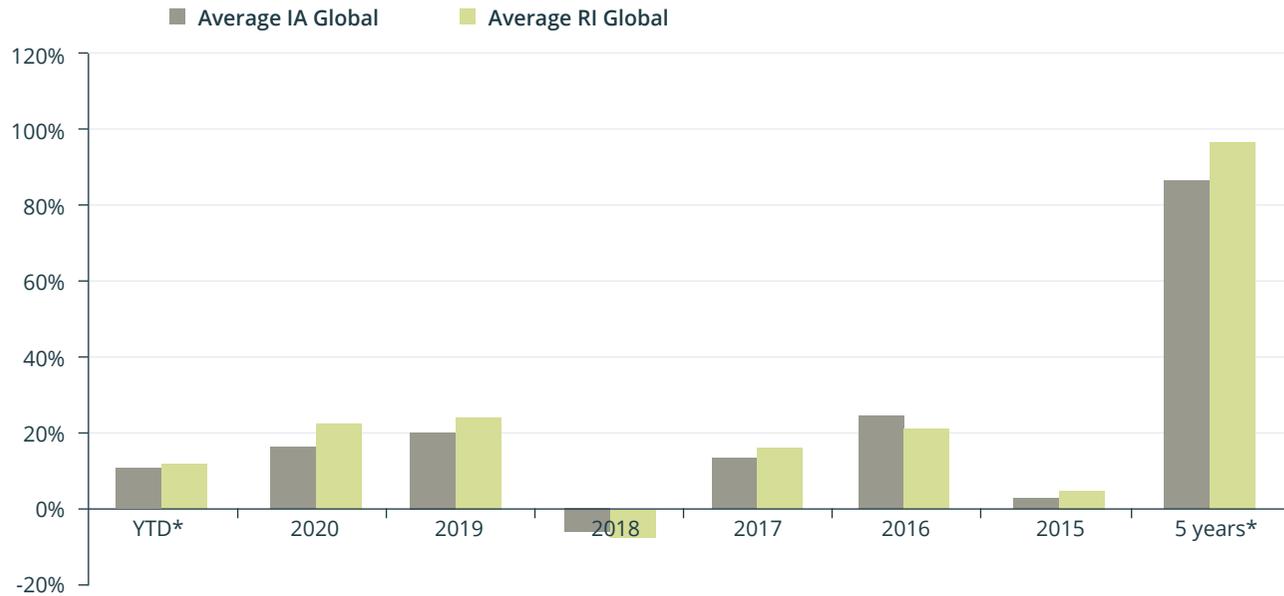
| Fund Name | YTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 5 years |
|--|-------|-------|-------|--------|-------|-------|-------|---------|
| Davy Low Carbon Equity Fund | 16.8% | 17.1% | | | | | | |
| EdenTree Responsible and Sustainable Global Equity | 19.8% | 11.6% | 19.1% | -9.8% | 14.4% | 24.4% | -2.6% | 74.2% |
| Federated Hermes Global Equity ESG | 15.7% | 15.5% | 21.3% | -8.2% | 12.9% | 26.3% | 6.4% | 84.9% |
| Federated Hermes Impact Opportunities Equity | 10.5% | 24.2% | 25.6% | 0.8% | | | | |
| Federated Hermes SDG Engagement Equity | 15.2% | 4.1% | 22.6% | -7.8% | | | | |
| Fidelity Sustainable Water & Waste | 19.6% | 7.1% | | | | | | |
| FP Foresight Global Real Infrastructure | -2.9% | 27.9% | | | | | | |
| FP WHEB Sustainability | 14.6% | 20.0% | 21.0% | -6.0% | 16.1% | 19.4% | 7.1% | 85.0% |
| GS Global Equity Partners ESG Portfolio | 19.8% | 17.2% | 25.3% | -2.0% | 11.7% | 20.6% | 1.7% | 102.4% |
| Guinness Sustainable Energy | | 57.9% | 25.7% | -10.2% | 10.6% | 1.6% | -6.2% | |
| Impax Global Equity Opportunities | 15.8% | | | | | | | |
| Janus Henderson Global Sustainable Equity | 13.9% | 33.0% | 32.6% | -6.3% | 18.7% | 21.8% | 3.9% | 133.3% |
| JOHCM Regnan Global Equity Impact Solutions | 10.5% | | | | | | | |
| Jupiter Ecology | 16.9% | 21.7% | 27.2% | -13.8% | 13.9% | 21.3% | 4.7% | 86.0% |
| Jupiter Global Sustainable Equities | 18.3% | 18.8% | 29.2% | | | | | |
| L&G Future World Climate Change Equity Factors Index | 17.4% | 6.4% | 20.3% | | | | | |
| L&G MSCI World Socially Responsible Investment (SRI) Index | 15.8% | -8.3% | 29.4% | -11.7% | 12.1% | 2.4% | 9.3% | 37.2% |
| Liontrust Sustainable Future Global Growth | 16.7% | 32.3% | 29.4% | 1.3% | 18.8% | 17.3% | 6.5% | 147.9% |
| M&G Climate Solutions | 9.8% | | | | | | | |
| M&G Positive Impact | 11.3% | 22.4% | 29.0% | | | | | |
| Montanaro Better World | 18.6% | 35.0% | 29.8% | | | | | |
| Ninety One Global Environment | 12.0% | 47.8% | | | | | | |
| Nordea 1 Global Climate and Environment | 19.6% | 27.5% | | | | | | |

 Outperformed sector average

| Fund Name | YTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 5 years |
|---|-------|-------|-------|--------|-------|-------|-------|---------|
| Nordea 1 Global Stars Equity | 14.2% | 16.8% | 27.8% | | | | | |
| Pictet Clean Energy | | | 32.6% | -12.7% | 15.7% | 24.0% | -5.7% | |
| Pictet Global Environmental Opportunities | 12.6% | 29.6% | 33.4% | -12.6% | 20.5% | 22.5% | 4.6% | 106.5% |
| Pictet SmartCity | 10.4% | 13.7% | | | | | | |
| Pictet Water | 24.3% | 11.6% | 30.2% | -6.4% | 16.3% | 28.8% | 6.9% | 104.2% |
| Quilter Investors Ethical Equity | 22.9% | 12.7% | 28.1% | -14.8% | 12.8% | 30.0% | 3.4% | 77.3% |
| Rathbone Global Sustainability Fund | 14.3% | 32.2% | 24.8% | | | | | |
| Royal London Global Sustainable Equity | 18.6% | | | | | | | |
| Sarasin Responsible Global Equity | 13.5% | 19.1% | 27.7% | -3.1% | 15.7% | 18.0% | 4.3% | 102.0% |
| Stewart Investors Worldw. Lead. Sust. | 18.8% | 18.2% | 8.1% | -0.2% | 10.8% | 29.1% | 6.1% | 72.3% |
| Stewart Investors Worldwide Sustainab. | 18.1% | 20.9% | 12.4% | 0.5% | 14.5% | 27.5% | 6.1% | 85.6% |
| Vanguard ESG Developed World All Cap Equity Index | 16.8% | 14.2% | 22.5% | -3.6% | 11.6% | 27.2% | 4.6% | 90.1% |
| VT Gravis Clean Energy Income | 0.2% | 27.1% | 34.3% | 1.7% | | | | |
| Wellington Global Impact | 13.7% | 26.9% | 22.7% | -4.8% | 19.7% | | | |
| | | | | | | | | |
| Average IA Global | 14.8% | 15.6% | 22.6% | -5.3% | 15.1% | 23.3% | 4.5% | 87.4% |
| Average RI Global | 15.4% | 23.6% | 26.0% | -5.3% | 15.5% | 21.7% | 3.4% | 101.7% |

■ Outperformed sector average

Data as at 31st August 2021. Total return with net income re-invested.
Source: Financial Express



Like their UK equity counterparts, global equity Responsible Investment funds have outperformed the sector average over the last 5 years, with the average Responsible Investment fund having outperformed the IA Global average in 4 out of the last 5 years. It is telling that the more thematically driven funds have yielded the best returns and that there is no trade-off between positive impact and financial returns. If anything, the reverse appears to be the case, with Responsible Investment themed funds benefitting from long-term tailwinds and avoiding some of the environmental and social headwinds.

Data as at 31st August 2021. Total return with net income re-invested.

Source: Financial Express

IA Sterling Corporate Bond

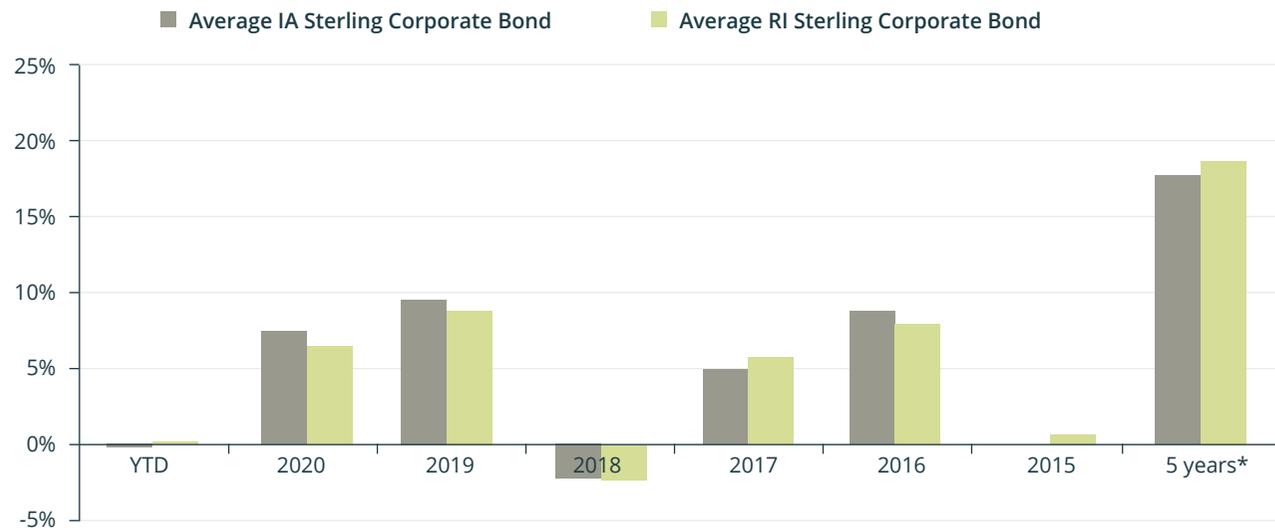
| Fund Name | YTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 5 years |
|---|-------|------|-------|-------|-------|-------|-------|---------|
| Aegon Ethical Corporate Bond | 0.4% | 7.9% | 8.6% | -1.9% | 4.5% | 8.1% | 1.2% | 17.1% |
| ASI Ethical Corporate Bond | -0.1% | 8.0% | 10.3% | -3.0% | 5.2% | 9.5% | 0.0% | 16.9% |
| BMO Responsible Sterling Corporate Bond | -1.4% | 8.0% | 8.8% | -1.9% | 4.2% | 9.1% | -0.4% | 14.2% |
| EdenTree Responsible and Sustainable Short Dated Bond | -0.2% | 2.3% | 2.9% | -0.4% | | | | |
| Liontrust Monthly Income Bond | 1.2% | 5.5% | 9.4% | -3.0% | 8.9% | 9.4% | 1.4% | 22.8% |
| Liontrust Sustainable Future Corporate Bond | 0.2% | 7.0% | 11.8% | -3.6% | 7.2% | 10.5% | 0.5% | 20.4% |
| Rathbone Ethical Bond Fund | 1.5% | 8.9% | 12.4% | -3.1% | 10.6% | 7.1% | 1.6% | 31.4% |
| Royal London Sustainable Managed Income Trust | 0.3% | 8.2% | 9.2% | -0.9% | 5.5% | 8.9% | 0.3% | 20.5% |

 Outperformed sector average

| Fund Name | YTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 5 years |
|---------------------------------------|-------|------|------|-------|------|------|-------|---------|
| Sarasin Responsible Corporate Bond | 0.7% | 9.2% | 9.3% | -2.4% | 4.6% | | | |
| Threadneedle UK Social Bond | -0.4% | 4.5% | 5.6% | -0.5% | 3.7% | 9.2% | 0.0% | 9.8% |
| Average IA Sterling Corporate Bond | -0.2% | 7.7% | 9.5% | -2.1% | 5.0% | 9.4% | -0.1% | 18.1% |
| Average RI IA Sterling Corporate Bond | 0.2% | 7.0% | 8.8% | -2.1% | 6.0% | 9.0% | 0.6% | 19.1% |

■ Outperformed sector average

Data as at 31st August 2021. Total return with net income re-invested.
Source: Financial Express



Data as at 31st August 2021. Total return with net income re-invested.

Source: Financial Express

The performance of Responsible Investment Sterling Corporate Bond funds has been more mixed, as the Responsible Investment market is smaller for corporate bonds than in equities. However, in absolute financial terms, there is some evidence that Responsible Investment Sterling Corporate Bonds funds have performed slightly better over the last 5 years, and, on average, they have outperformed year-to-date 2021 (August).

Feature Article: COP26 - Keeping the Focus on Climate

It would be difficult today to not be aware of the challenges currently facing the environment. Popular television documentaries, such as the BBC's Blue Planet II, and a constant stream of news flow about unusually catastrophic floods and wildfires, are a constant reminder that something isn't quite right with our climate.

The World Economic Forum categorises environmental risks into extreme weather events, biodiversity loss, pollution and increasing temperatures. If you think about the last time you heard about one of these issues in the media, it is very likely, recently. All these issues have serious impacts and implications on our way of lives and pose considerable risks to our investments.

Business sectors that are carbon intensive are judged to be at particularly high risk from climate change. Oil, gas, coal, petrochemicals, resources, and transport companies are all exposed to legislative changes, changes in consumer demand and increasing cost inputs. Stress on water resources affects agricultural production and food related companies, whilst increasing sea levels affect oil refineries and nuclear power generation. Increasing insurance costs, supply chain and logistical disruption because of environmental factors feeds into higher

capital costs, poorer product output and the erosion of investor value across a broad range of sectors.

The social costs of climate change also affect investments. Populations that are unable to improve their development because of land degradation, water scarcity, flooding and structural poverty, can neither benefit from, nor contribute to, economic growth and global prosperity.

The upcoming UN Climate Change Conference in Glasgow (COP26) taking place in November 2021 is an opportune moment to bring these issues into the wider consciousness. Not only does it reaffirm the objective of the Paris Agreement (2015) to limit global warming to 1.5 degrees of warming to pre-industrial levels by 2030, but it is a timely call to action. Countries will be asked to set out tangible emission reduction targets and asked to contribute to raising \$100 billion of climate finance per annum.

COP26 also allows the reinforcement of the importance of aspiring to "Net Zero". Since 2019, the UK has established in law the need for the country to have its carbon emissions reduced or offset to net zero by 2050. The importance of regional commitments such as this

cannot be underestimated. Not just because they have a tangible and measurable objective, but because it helps to crystallise action and thoughts at a corporate and individual level.

It is likely that COP26 will result in several regulatory initiatives, some of which will have trickle down affects to you and me, but importantly will influence a broader narrative. The media, trade organisations, trustees, shareholders, managers, and individual investors, are all influenced by the language that is adopted and the ideas that are promulgated in forums such as these. Yes, there will be point scoring, international intrigues and realpolitik, but throw enough aspirational vision around and some will stick.

Given the sometimes-apocalyptic nature of the climate-related threats we face, it is easy to see risk and existential threat as the consequence of inaction. However, COP26 and beyond should also reveal the enormous opportunities of dealing with these problems.

Indeed, it is somewhat reassuring to see how many fund managers are embracing potential solutions to the problems that COP26 is identifying. There are now an increasing amount of fund groups launching climate-themed funds which invest in renewable energy or climate mitigation technologies. Others are investing in improving agricultural and resource efficiency. Fund managers who are not investing in specific climate or climate-associated themes are improving their governance processes. In September 2021, Reuters reported that investors placed a record £90 billion in the first UK government green gilt issuance.

In becoming better stewards of capital, these firms are demanding change from the companies in which they invest, recognising the risk of stranded assets or higher costs of capital. It is fair to say that the fund groups represented in this publication (and many others) are driven by a genuine desire to not only provide good returns for their investors but to do so in a way that changes how these returns are generated.

To the extent that conferences like COP26 remind us of the threat that climate change poses, there is also a positive aspect. Yes, climate change is a global negative externality, but there are investment opportunities in finding solutions. There are considerable benefits from bringing together governments, senior company managers and market participants.

In essence, solving the problems need not just rely on altruism. The profit motive can sit alongside the global imperative. Fund managers are beginning to understand this, as are shareholders and investors. Doing good, avoiding doing harm, and leading change are indeed as acceptable fiduciary duties as generating a financial return.



By Jake Moeller
Senior Investment Consultant at
Square Mile

Investing for 'net zero': Cutting through the noise

The world's leading climate scientists are unambiguous in their latest evaluation of our planet's changing climate.

"It is unequivocal that human influence has warmed the atmosphere, ocean and land", write the authors of the Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report. According to their best estimates, global surface temperatures were 1.09°C higher in the last decade, 2011 to 2020, than in the second half of the 19th century.

The IPCC conclude that *"global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in CO² and other greenhouse gas emissions occur in the coming decades"*.

An urgent call to action

This stark warning comes in the run up to the latest United Nations Climate Change conference, known as COP26. In early November 2021, representatives from across the world will convene in Glasgow to discuss action towards meeting the climate goals negotiated in the 2015 Paris Agreement, which aims to limit global temperature rises to "well below 2°C above pre-industrial levels", but preferably to 1.5°C.

The IPCC conclude that "global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in CO² and other greenhouse gas emissions occur in the coming decades".

The IPCC observes changes in weather and climate extremes, such as heatwaves, heavy precipitation, droughts, and tropical cyclones, and project that these will accelerate as global warming continues. Physical climate risks, which include the consequences of rising sea levels and biodiversity loss, carry costs. One study estimated that the value of worldwide assets at risk because of climate change could reach US\$24.2 trillion by 2100¹.

Global cooperation is needed to meet the 1.5°C target. To keep it within reach, countries are asked to present 2030 emissions reductions targets at Glasgow that align with reaching 'net zero' by 2050.

Additionally, the merits of carbon offsetting – a practice used to balance out emissions, usually by planting trees or restoring natural habitats - are hotly debated.

The role of 'net zero' targets

'Net zero' refers to achieving an overall balance between carbon emissions produced and emissions removed from the atmosphere, either through nature – trees absorb CO² – or through technological innovation, such as carbon capture and storage.

We need to achieve and sustain global net zero to stabilise CO²-driven temperature increases. Many countries have committed to transition their economies to net zero by the middle of the century. In turn companies are also making similar pledges, which will hopefully inspire innovation in new technologies and reinforce public policies to mitigate climate change.

Yet despite the advantages of corporate net zero targets, they are not a panacea: some industries key to the transition to a sustainable economy will not, by their nature, be able to achieve net zero based on today's technologies. Additionally, the merits of carbon offsetting – a practice used to balance out emissions, usually by planting trees or restoring natural habitats – are hotly debated.

What to consider when investing for 'net zero'

Rather than insisting all companies adopt net zero targets, we believe it is more useful to look at the bigger picture. After all, it is the overall global economy that must arrive at net zero, not any single company. For investors, this means taking a portfolio approach.

When it comes to choosing funds aligned with a future, net zero economy, we believe there are three important things to consider. Firstly, what are the objectives of the fund and what does it invest in? Some strategies are designed to intentionally allocate capital towards well-run, sustainable businesses.

Secondly, how does the fund report on its climate change impact? You can expect information on the CO² impact of a portfolio over a given period, based on the activities of companies it invests in.

Thirdly, how does the fund perform against its climate-related objectives? Whether compared against a net zero target or the current global economy, we believe it is important to put CO² metrics into context.

For more than two decades, Impax has been dedicated to investing in areas of the market that are providing solutions to sustainability challenges. Climate change not only creates risks for investors, but also opportunities.

We believe society is in transition from an old economy, built on a depletive model, to the next economy, built on

a sustainable model. This transition is creating long-term opportunities for companies that are well positioned, through their products and services, to help mitigate climate change or adapt to its consequences. These companies should prove resilient over the decades to come.

The IPCC's projections are a reminder of how urgent action is needed to address the drivers of climate change. By paying scrutiny to where their investments are allocated, and the impact those portfolios are having, we believe investors can drive solutions to the greatest challenge facing global society.



By Harry Boyle

Director, Portfolio Specialist at Impax Asset Management

¹ <https://www.nature.com/articles/nclimate2972>

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Generating alpha for planet, people and profit

Sustainability is at the core of the debate among policy makers and asset managers now, thanks to mounting environmental risks and a sharp focus on social issues, amid the crippling coronavirus pandemic. Abbie Llewellyn-Waters explains that doing good for the planet and for people need not be at the cost of profit and expands on her team's forward-looking investment approach in allocating capital for transitioning to a better future.

For a second year running, environment concerns top the list of global economic risks cited by the World Economic Forum.

In 2020, extreme weather, policy inertia, biodiversity loss, natural disaster and human-made damage were identified as the top five risks. This year infectious diseases moved to the fourth spot and social issues are also flagged as key concerns.

Devastating Australian bushfires, Arctic Circle wildfires and the Texas big freeze

showed the threat of global warming is not a distant concern. Drought in subtropical Taiwan had a big impact on global semiconductor supply, which underpins many economic sectors.

These unexpected climate events underline the fact that sustainability as a concern has moved well beyond philosophical, populist, political or ideological debates. They are pure economic risks. Understanding how capital is allocated in this transformed landscape is more important now than ever.



Holistic view

We take a holistic view when addressing sustainability. The spread of coronavirus since early 2020 showed how the most marginalised are the most vulnerable both in terms of economic impact and fatalities. Lack of access to computers for home learning is also a future systemic risk in exacerbating the attainment gap.

We launched our first sustainable investment strategy in 1988 and our Global Sustainable Equities strategy just marked its third anniversary. We have long standing commitment, innate expertise and years of authenticity that makes us well qualified to comment on the evolving scenario.

In this context, it is important to mention that we hold ourselves to the same account as our investee companies. Jupiter was a founder signatory to the Carbon Disclosure Project (CDP) in 2000. Eight years later, in 2008, we signed the Principles for Responsible Investment, or PRI.

Back to the future

There is increased recognition that the world cannot kick the can down the road as far as the climate emergency is concerned. And the deal sealed in April between Biden's climate emissary John Kerry and China is particularly important because if the two largest emitters align, we should anticipate accelerated policy. Cutting net CO² emissions has fast become a business-critical strategy since the world's largest nations signed a legally binding agreement in 2015 to cut global warming.

Cement could be an apt illustration of how carbon may become an internalised cost to business. If the cement sector were a country, it would be the third largest emitter of carbon. Cement has been a cornerstone of civilization since the Roman empire, and we need it for building hospitals, roads, and housing. Even renewable energy projects are dependent to a degree on the sector. Currently, there is no scalable alternative to cement.

These unexpected climate events underline the fact that sustainability as a concern has moved well beyond philosophical, populist, political or ideological debates. They are pure economic risks. Understanding how capital is allocated in this transformed landscape is more important now than ever.



But we anticipate all industries will be subjected to carbon pricing mechanisms in the future, which can have an impact on cash flows and profitability. Pricing in these risks at the early stage of fundamental analysis is absolutely core to delivering returns on a consistent basis over the long run.

The shift towards decarbonization is not just about mitigation through divestment. It is also about how we price assets.

Investment framework

Therefore, holding a low carbon portfolio that is transitioning to delivering net zero is key for our performance. The portfolio companies are already aligned to a net zero economy by or before 2050. Some will achieve net zero much sooner. Our investment framework is designed to capture these leading companies.

We look for credible and deliverable strategies and capital allocation programmes backed up by targets over the short-, medium- and long-term to make this assessment and seek clear medium term actionable targets of decarbonisation that bridge executive and board tenures.

That brings us to the core questions. Do you need to sacrifice performance to look at sustainable investing? Do you need to take on too much risk for a leading sustainable strategy?

Risk and return

Our own experience shows you can deliver attractive returns if you use

broader stakeholder analysis to enhance your conviction about your investments. We prioritize materiality and relevance. Our Global Sustainable Equities strategy illustrates that this can be achieved on a diversified low volatility basis as well.

Our bias for quality companies has allowed us to keep volatility low in our investment framework. Economic sustainability, strong balance sheets, resilient cash flow and whether these companies are built for the long term are some of the factors we consider while making our investment choice. Our strategy has proven to be resilient even during the coronavirus upheaval.

We aim to create a forward-looking portfolio that addresses issues such as the environment and inclusivity. At the heart of it all is delivering a positive impact across planet, people and profit for a more sustainable world.

For more information, please visit www.jupiteram.com



By Abbie Llewellyn-Waters

Portfolio Manager at Jupiter Asset Management

The Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request. This fund can invest more than 35% of its value in securities issued or guaranteed by an EEA state. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested.

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A circular economy: Picking the easy net zero fruit

Most nations have today accepted the challenge to cut greenhouse gas emissions to net zero by 2050. The need to replace fossil fuel activities with cleaner energy sources has taken centre stage. However, if we have any intention to reach this goal, incorporating a circular economy will both be a necessity and also represent some of the easiest opportunities we will have to cut emissions.

By circular economy we mean incorporating an economic system aimed at eliminating waste and the continual use of resources. Circular systems employ **reduce, reuse, and recycling** to create a closed-loop system, minimising the use of resource inputs and the creation of waste, pollution and carbon emissions. This would replace the **take, make and waste** approach of traditional linear business models.

The circular system from an economic standpoint aims to keep products, equipment and infrastructure in use for longer, thus improving the productivity of these resources.

Sending waste to landfill is a large source of carbon emissions, by constantly reusing resources and avoiding landfill we benefit both the planet and our own finances.

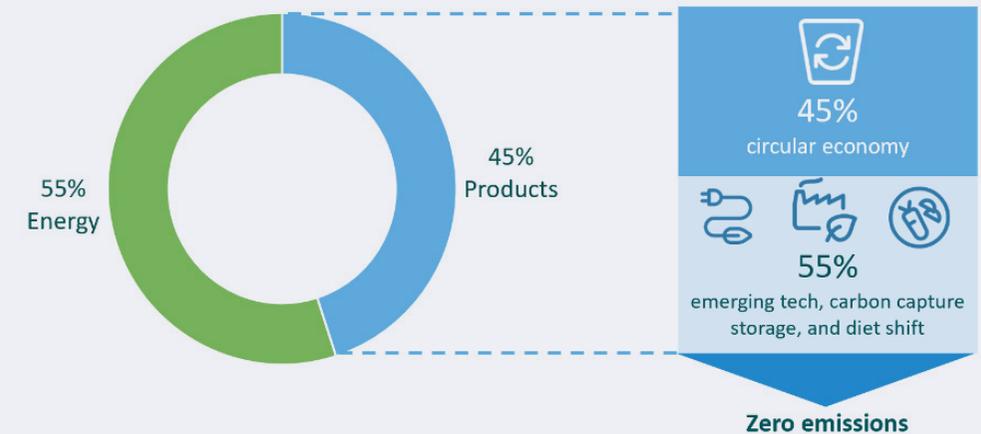


The scale of the opportunity

The pivotal role of the circular economy

Completing the picture: tackling the overlooked emissions
Total current emissions

Emission reductions
in 2050



Source: <https://www.ellenmacarthurfoundation.org>

Whilst reducing energy related emissions remains the largest effort in our aim to reach net zero, moving to a circular economy provides the opportunity to reduce global emissions by up to 20%.

Recycling products, from copper to plastic means we save energy in not having to mine and create virgin material. The economics are also much better to reuse and recycle than it is to buy and process virgin material.

As regulations develop to get us to net zero by 2050, don't be surprised over the coming years to increasingly hear the promotion and adoption of a more circular economy.

This is supported by Accenture research, who estimate that the circular economy could generate \$4.5 trillion of additional economic output by 2030, their work identifies circular business models that will help decouple economic growth and natural resource consumption while driving greater competitiveness.



At M&G, we have identified a list of companies which promote a circular economy as part of their business models:

Ball Corp is the world's largest aluminium can manufacturer. Given aluminium can be recycled infinitely, 75% of all aluminium ever produced is still in use today. The global recycle rate for aluminium cans is 69% supported by the fact the residual product has an economic value and can easily be sorted during the collection process. Only 43% of PET (plastic) and 46% of glass bottles were collected for recycling, although not necessarily recycled.

✓ **Impact:** Ball Corp helps save 4.25m tonnes CO²e per year. This is the equivalent of removing 945,000 petrol cars off the road for a year.

Source: <https://nepis.epa.gov/Exe/ZyPDF.cgi?Dockey=P100U8YT.pdf>

Brambles is a supply-chain logistics company operating in more than 60 countries. It operates a platform of over 300m pallets and crates which form the invisible backbone of global supply chains, primarily serving the fast moving consumer goods, fresh produce, beverage, retail and general manufacturing industries. The pallets and crates are made from wood and constantly recycled.

✓ **Impact:** Brambles help save 1.95m tonnes CO²e per year. This is the equivalent of recycling 650,000 tonnes of waste instead of sending it to landfill.

Source: Brookfield Renewable Partners III report (please refer to pg. 24).

Darling Ingredients is a world leader in the recycling of meat-based products and cooking oils. They convert these products back into food, feed, and fuel. By rendering meat by-products, the carbon is captured and reused, rather than released into the environment as a greenhouse gas.

✓ **Impact:** In 2019, Darling Ingredients' Scope 1 and 2 emissions* were 1.8 million tons of CO², but the company saved 5.5 million tons of CO². This gives a net-positive climate impact of 3.65 million tonnes of CO²e. This is the equivalent of the estimated annual emissions of the UK city of Leeds.

Source: Leeds Carbon Roadmap report, pg. 2

*Scope 1 emissions are all direct emissions from the activities of an organisation or under their control. This includes fuel combustion on site, from owned vehicles and fugitive emissions. Scope 2 emissions are indirect emissions from electricity purchased and used by the organisation. Emissions will be crated during the production of the energy and eventually used by the organisation

DS Smith is a leader in sustainable packaging, demonstrating the potential of closed-loop recycling – a process whereby waste is collected, recycled, then re-used to make the same product. By using recycled materials in its corrugated boxes, M&G estimates that the UK company saves 55 million trees a year from being cut down.

DS Smith's main customer is internet retail giant Amazon, which gives DS Smith's operations huge scale and impact.

✓ **Impact:** DS Smith's operations offer a net saving of just over 650,000 tonnes of CO²e per year. This is the equivalent of providing 120,000 homes with emissions free electricity.

Source: Brookfield Renewable Partners III report (please refer to pg. 24).

Trex is the largest composite decking producer in the world. Composite decking is more durable and has better sustainability credentials than lumber wood alternatives, which make up a majority of the decking market. Trex also has its own network to collect used

plastic and wood, which stops materials being placed in landfill. Compared to wood decking, Trex composite decking is more durable, longer lasting and easier to maintain.

✓ **Impact:** In 2019, Trex decking emitted 42% fewer greenhouse gas emissions compared to Alkaline Copper Quaternary (ACQ) treated wood decking.

Source: The information source is from the company's sustainability report, available on their website. [trex-sustainability-report-catalog_d15-ssp.pdf](#) (Page 31 of report).



By Randeep Somel
Portfolio Manager at
M&G Investments

Source case studies: companies corporate websites from Ball Corporation, Brambles, Darling Ingredients, DS Smith and Trex. These figures are based on the latest information available from company literature and reports.

The value of a fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise and you may get back less than you originally invested.

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Small companies and the challenge of net zero

Small countries are leading the way in the race to net zero. Of the 193 members of the United Nations, only two have achieved net zero carbon: Bhutan and Suriname. In fact, they have surpassed this much talked about goal. Both countries are currently carbon negative. They remove more carbon than they emit.

At the other end of the net zero spectrum sits Australia, which has loosely expressed ambitions for carbon neutrality sometime in the second half of the century. China's target is for 2060, a full decade after the world needs to achieve net zero if it is to meet the terms of the Paris Agreement and limit global warming to well below 2°C.

Of course, it is not completely fair to compare Bhutan (population: 700,000) to China (population: 1.4 billion), a nation that accounts for some 25% of global emissions. The point, however, is that every country has to play its part in the global race to net zero.

MONTANARO

ASSET MANAGEMENT

As Small & MidCap investors, we believe that every company will have to play its part too, even as the focus of many stakeholders remains on the world's largest companies.

A recent report from "Bankers for Net Zero" highlighted the risk of neglecting smaller companies, which in the UK account for 52% of turnover and a quarter of the workforce: "self-evidently, the UK Government cannot meet its long-term climate goals if it doesn't take the 99% of British businesses with fewer than 250 employees with it". The same is true in the US and Europe, where net zero pledges by small companies lag their LargeCap counterparts.

The challenges and frustrations voiced by small companies in the report echo what we hear from our own investee companies. We have spent the last three years engaging with companies to understand the challenges they face in tackling climate change.

Announcing a net zero target is easy. What comes next is more complex. What steps do companies need to take to deliver on a goal that is in the distant future? How should net zero be defined? What reporting expectations do shareholders have? Can companies use carbon offsets, and if so, which ones and under what terms? Some shareholders want Task Force on Climate-Related Financial Disclosures (TCFD) reporting (and indeed this may soon become mandatory for companies of a certain size). Others wish net zero goals to be verified by the Science Based Targets Initiative (SBTi). Certain investors are happy if companies ignore Scope 3; others want detail on the full range of scope emissions.

Deciding what to do is difficult. There is no precedent and the stakes are high: targets that lack detail can at best be perceived as underwhelming and at worst greenwashing, feeding the scepticism of those questioning the net zero agenda.

Announcing a net zero target is easy. What comes next is more complex. What steps do companies need to take to deliver on a goal that is in the distant future? How should net zero be defined? What reporting expectations do shareholders have? Can companies use carbon offsets, and if so, which ones and under what terms?

Companies are operating in an environment where it is largely up to them to work out the answers to such questions. This is resource intensive. One of our companies informed us that due to differing standards they would only update their sustainability report every other year. Understandably, they lack the internal resource to solve the puzzle of climate reporting.

Others have ignored headline targets altogether. A water technology business in which we invest has specifically not set a net zero goal. Management is instead trying to achieve a series of interim environmental goals for 2025, allowing them to better understand the company's environmental pressure points and challenges. Once this work is done, they can set a net zero goal in the confidence that it will be met.

What solutions can we bring to smaller businesses to help them navigate these challenges? We plan to continue our net zero engagement project. An aim this year is to understand how executive pay is linked to and aligned with climate change related goals. To borrow a phrase from Mark Carney, a "tragedy of the horizons" exists where today's CEOs - those setting net zero targets - are unlikely to be running the same companies in 2030 or 2050. Current incentives should be aligned with the transition to net zero.

We are honoured that Montanaro has been invited to join a taskforce coordinated by The Glasgow Financial Alliance for Net Zero (GFANZ) and chaired by Mark Carney, in his role as UN Special Envoy on Climate Action and

Finance. The purpose of the taskforce is to improve guidance to corporates on the financial sector's expectations for credible transition plans.

We hope to use our experience alongside other members of the taskforce to ensure that the setting of standards can be applied not just to the companies at the top of the equity pyramid, but smaller companies too. While the world's largest companies account for a substantial proportion of emissions, there are 10 times more Small and MidCaps across global equity indices. Unless we take them with us, we can all forget about living in a net zero world.



By Ed Heaven

Head of Sustainable Investment at
Montanaro Asset Management

Race to net zero: Fixed income challenges & opportunities

The latest report by the International Panel on Climate Change (IPCC) adds further scientific evidence to the urgency of mobilising capital to mitigate climate change and invest in resilience. Fixed Income investors play an important role, by providing debt financing to governments, corporations and other agencies to deploy towards sustainable and inclusive infrastructure, products and services. Aligning fixed income portfolios to net zero emissions objectives represents a unique opportunity for active managers to differentiate themselves from rules-based, passive climate strategies. Active managers can distinguish themselves by identifying attractive investments in sustainability improves across sectors, intensifying engagement with issuers on their climate strategy and targets, and ultimately supporting a more holistic low-carbon transition.

Morgan Stanley

INVESTMENT MANAGEMENT

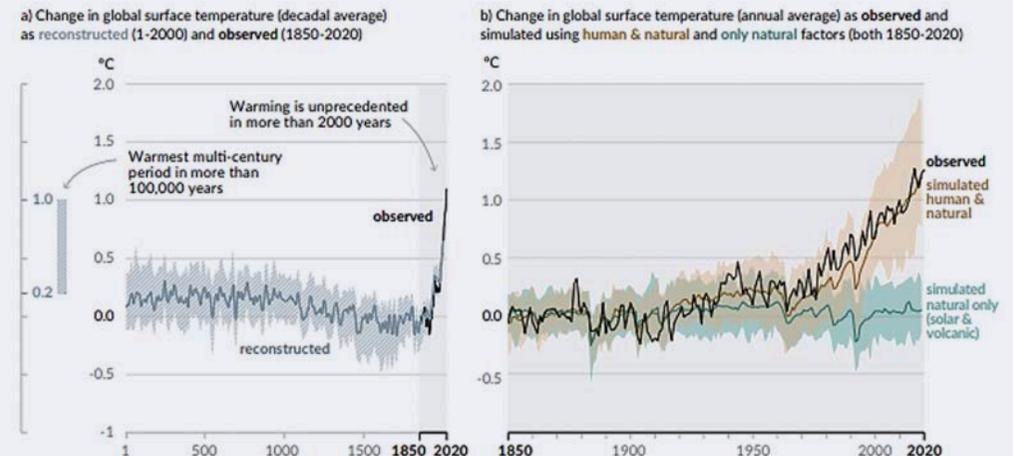
An Imperative to Invest in Climate Mitigation

The latest UN IPCC report is categorical in its assertion that human activity is heating the planet and exacerbating extreme weather events. It serves as a sombre reminder of climate-related threats, but also highlights that more ambitious commitments can help limit warming to a 1.5°C scenario. Access to debt financing is vital for governments, companies, and development agencies to invest in decarbonisation and resilience projects. At the same time,

climate-related factors can affect credit quality across fixed income assets, requiring issuer-specific as well as sector-by-sector analysis of physical and transitional risks. The urgency of tackling climate change requires active management of sustainability within a portfolio to mitigate those risks effectively. However, active management also focuses on pursuing opportunities associated with businesses and economies that are helping to drive a low-carbon and inclusive transition.

Human influence has warmed the climate at a rate that is unprecedented in the last 2000 years

Changes in global surface temperature relative to 1850 - 1900



Source: IPCC, 2021.

The Fixed Income Data Challenge of Net Zero Alignment

Aligning portfolios with net zero emission pathways that help meet the 1.5°C warming objective requires comprehensive data on greenhouse gas (GHG) emissions and on targets for their reduction. The availability of such information is improving¹, partly thanks to the regulatory push towards climate-related disclosure. However, there remain significant data gaps in asset classes such as securitised debt, high yield corporates and emerging market debt.

To help address this issue, organisations such as the International Energy Agency (IEA) and the IPCC itself have developed reference emission reduction scenarios for the more carbon-intensive sectors. However, different assumptions around the role of certain activities and technologies result in varying trajectories. This calls for asset managers to develop their own approaches and scenario analysis, and to determine interim emissions intensity targets that can be monitored and optimised.

Following a proprietary approach can also prevent some of the sector bias in passive strategies that focus on excluding high-emitting sectors, such as utilities. Maintaining a well-diversified fixed income portfolio becomes challenging when following this approach and reduces the investment opportunity set. Conversely, the ability to capture sustainability momentum, for example by investing in climate improvers with current high emissions

but ambitious reduction strategies, has the potential to generate superior investment returns alongside positive impact.

The Engagement and Green Investment Opportunity

We see the low carbon transition as a structural trend, with both regulation and investment flows increasingly influencing the accessibility and cost of capital to certain sectors. We believe investors should engage on companies' decarbonisation strategies, with a focus on the setting of science-based targets that have verifiable milestones, and on transparent sustainability disclosure that spans environmental and social metrics. In addition, Fixed Income investors have leverage beyond that of corporates. Engaging with federal and regional governments can help ensure accountability for progress towards the Paris Agreement and the UN Sustainable Development Goals agendas. Active engagement also allows investors to effectively identify which issuers are being most ambitious in their climate strategies, and better positioned compared to their peers to benefit from systemic tailwinds, ultimately facilitating better investment decisions.

Fixed Income investors are also able to invest in direct positive environmental impact via labelled instruments such as green and other sustainable bonds. 2021 year-to-date levels of labelled issuance have already surpassed 2020 totals, reaching almost \$600 billion². Developing a bespoke methodology for assessing green bonds' estimated carbon footprint,

which takes into account their role in supporting the low carbon transition, would allow for a fairer representation of their emissions within portfolios.

In Practice: The Role of Active, Climate-Aware Fixed Income Strategies

We view an active and flexible investment approach as essential to identifying the best investment opportunities in sustainability improvers across sectors. Morgan Stanley Investment Management has developed sustainable fixed income strategies that combine a flexible and broad investment universe with a comprehensive approach to ESG integration and low carbon. Our approach has evolved beyond pure rules-based screening, by applying proprietary research aiming to tilt towards superior sustainability performers. The rigorous analysis embedded in our security selection process takes into account each issuer's climate performance and targets, and for labelled green and sustainable bonds that finance environmental and/or social projects, seeks to identify the most robust and impactful issues. All of this is complemented by an active issuer engagement programme on ESG topics, led by our Analysts and Fixed Income Sustainable Investing team.

We have built dynamic strategies that allocate across the whole spectrum of the fixed income market – across corporates, sovereign and securitised debt – through a strong sustainability lens³. We aim to deliver consistent returns with low correlation to other

asset classes alongside a positive climate-related impact⁴. The net result is a set of strategies that is designed to ride through the peaks and troughs of market fluctuations, with a focus over the long run on generating consistent positive returns combined with positive sustainability and climate outcomes.



By Barbara Calvi

Vice President, Sustainable Investing, Global Fixed Income at Morgan Stanley Investment Management

¹ The number of organisations supporting the Task Force on Climate-related Financial Disclosures (TCFD) increased by over 85% since 2019, with nearly 60% of the world's 100 largest public companies supporting the TCFD, reporting in line with the TCFD recommendations, or both (Source: TCFD 2020 Status Report, Financial Stability Board, October 2020).

² **Source:** Bloomberg NEF, as of 31 August 2021.

³ **Note:** Diversification does not prevent the risk of loss in a declining market.

⁴ **Note:** there is no guarantee that any investment strategy will work under all market conditions.

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Role of carbon prices in energy transition

The world needs a much higher carbon price.

Carbon pricing has so far failed to take off. But it could soon become a pillar of the green economy.

Pictet – Thematic Advisory Boards:

Each thematic strategy at Pictet Asset Management benefits from a dedicated advisory board made up of eminent scientists, business leaders and academics. This enables us to test our views against experts in their respective fields, providing us with deeper understanding of the regulatory environment and the trends supporting the themes we invest in.



The transition from a fossil-fuelled economy to one powered by renewables carries the promise of being as transformational as the agricultural and industrial revolutions.

But as things stand, hopes for containing climate change look ambitious.

New net zero pledges from the US, China and Europe are inadequate. They still leave the world far short of the Paris Agreement goal of limiting global temperature rises to below 2 degrees Celsius from pre-industrial levels.

This is why carbon pricing is essential.

According to members of the Pictet Clean Energy Advisory Board, a fully functioning carbon pricing mechanism could be the difference between halting climate change and allowing it to spiral out of control.

Market forces, they argue, can be a powerful ally, helping change the behaviour of businesses and consumers.

The problem is finding a way to harness them effectively.

Currently averaging globally at just USD2 per tonne of CO², the carbon market is clearly not doing the job it was set up to do. The International Energy Agency says carbon prices need to rise to as much as USD140 by 2040 to meet Paris goals.

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Breaking the tragedy

Getting there will not be straightforward.

As former Bank of England Governor Mark Carney warned, the battle against climate change is hampered by the “tragedy of horizon”. In other words, the current generation has no direct incentive to fix the problem when catastrophic impacts of climate change will not be felt for decades.

By making carbon emissions more costly today, however, there is the possibility of avoiding that tragedy.

The World Bank’s modelling has shown that carbon pricing has the potential to halve the cost of implementing Paris targets, saving some USD250 billion by 2030.

One problem is that carbon pricing schemes don't cover nearly enough of the world's emissions.

Globally, the carbon pricing market accounts for about 12 gigatonnes of CO² equivalent – which translates into just under a quarter of all annual global greenhouse gas emissions.¹

The US, the world's biggest polluter, does not even participate in carbon trading at the federal level while the Paris climate agreement did not include a provision for pricing carbon.² Industry lobby groups in coal, oil and gas sectors had been fierce opponents too.

And then there is a wide divergence in prices from country to country. European countries set the example.

Sweden levies the highest carbon tax in the world at SEK1,190 (EUR117)/tonne CO², covering about 40 per cent of its greenhouse gas emissions.

In Europe, the world's biggest and oldest market, carbon prices rose more than five-fold since 2018 to a record high in May (see Fig. 1).

But elsewhere, carbon remains under-priced.

According to the IEA, the average carbon prices would need to rise almost 50-fold to USD75-100/tonne by 2030 and then USD125-140 by 2040 to meet Paris Agreement goals.

University of California San Diego researchers believe even that will fall short.

Their study puts the social cost of carbon – which takes into account empirical climate-driven economic damage estimations and socio-economic projections – at a staggering USD417/tonne.³

The lack of a harmonised market and a unified global carbon price are perhaps the most significant problems.

Businesses, especially in energy-intensive industries, may relocate out of countries with high carbon costs into those with laxer emission constraints – in a phenomenon known as “carbon leakage”.

Our advisory board members say renewed international efforts to fight global warming could encourage more countries and regions to start adopting carbon pricing schemes. That should push prices higher in the long term and prevent carbon leakage.

The signs are encouraging. In China, which launched its national carbon market in February, market participants expect the price to average RMB66/tonne (USD10) in 2025 before rising to RMB77 by the end of the decade.⁴ It has the potential to be the world's biggest carbon market.

Elsewhere, the American Petroleum Institute, the powerful fossil fuel lobby, is now endorsing the introduction of carbon prices in a major policy reversal that underscored seriousness in tackling climate change.

What's more, Brussels plans to present proposals to revise and possibly expand its emission trading system in line with the European Green Deal and its new target to reduce greenhouse gas emissions by at least 55 per cent by 2030.

One way to improve the emission pricing system is to expand the use of carbon credits. Governments can give out credits to businesses that lower their carbon footprint with carbon capture and storage (CCS) technology, reforestation activities or energy efficiency solutions.

This way, companies can gain flexibility in complying with carbon pricing regulations.

This would have significant benefits. The IEA estimates such technologies alone have the potential to cut global energy sector CO² emissions by nearly 35 gigatonnes of CO² by 2070, or 100 per cent of what's considered sustainable in the same period.

Fig. 1 - Pay-as-you-pollute

European Union Carbon Emissions Allowances (EUA) December 2021 futures



Source: Bloomberg, data covering period 01.01.2017 – 28.05.2021

The discussion on carbon pricing and credits is likely to feature prominently during the landmark UN climate talks in Glasgow later this year as potential cornerstone to supporting climate goals.

Accelerating innovation

An overlooked benefit of effective carbon pricing is that it can also accelerate the pace of innovation in clean energy technologies and promote a faster and broader adoption of products and services that have yet to become commercially viable.

For example, our Advisory Board members say, certain types of hydrogen power generation that combines carbon storage could become cost competitive if carbon prices are set around EUR60-70 per tonne of CO².

Other technologies that could become viable at higher carbon prices

include advanced power transmission mechanisms and next-generation batteries.

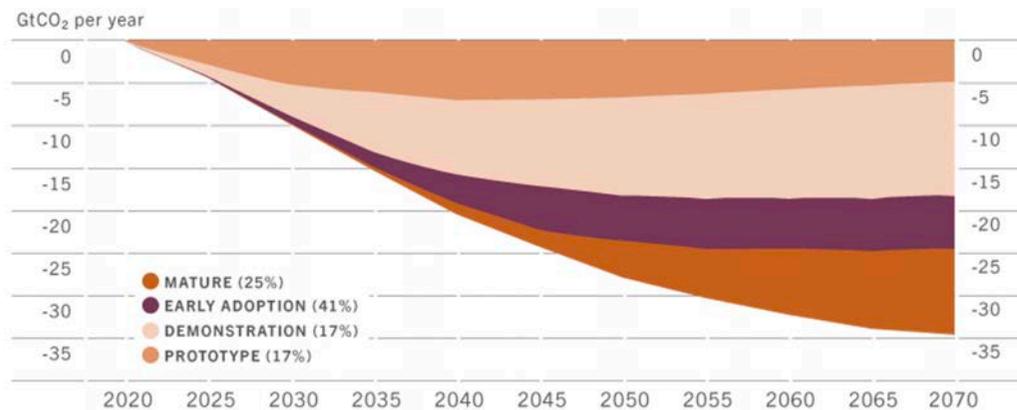
This would have significant benefits. The IEA estimates such technologies alone have the potential to cut global energy sector CO² emissions by nearly 35 gigatonnes of CO² by 2070, or 100 per cent of what's considered sustainable in the same period.

The transition to a decarbonised economy will be among the most wrenching socio- economic shifts humans have ever experienced. Yet even though the survival of the planet is at stake, resistance to change is proving difficult to overcome. A higher carbon price can smooth the path.

By The Thematic Advisory Board

Fig. 2 - Innovate to reduce

Global energy sector CO² emissions reductions by current technology readiness category.



Cumulative emissions reductions by 2070 in the Sustainable Development Scenario (the IEA's goal in line with energy-related components of the Sustainable Development Goals) relative to the Stated Policies Scenario (which assumes all the currently stated policies have been implemented) Source: IEA, 01.07.2020

¹ Carbon Pricing Dashboard, World Bank

² Article 6 of the Paris Agreement provides options for voluntary cooperation amongst countries in achieving their NDC (nationally-defined contributions) targets to allow for higher climate ambition, promote sustainable development, and safeguard environmental integrity

³ Ricke, K., Drouet, L., Caldeira, K. et al. Country-level social cost of carbon. Nature Clim Change 8, 895–900 (2018). <https://doi.org/10.1038/s41558-018-0282-y>

⁴ China Carbon Pricing Survey 2020

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Methane: cows, hydrogen and the future of the Arctic

While much attention in the climate change and decarbonisation debate has rightly centred on carbon emissions, methane is starting to come into focus and face tighter scrutiny. Methane accounts for 23% of greenhouse gases, the largest contributor to climate change after carbon dioxide.

Carbon emissions do not just come from carbon dioxide; carbon is an omnipresent molecule that finds partners very easily. Methane, for example, comprises one carbon and four hydrogen molecules and is another critical greenhouse gas to control. While not as abundant, methane has a more potent warming potential if emissions are not kept in check. In this short article, we look at the source of the problem, suggest some solutions that are commercially available today to arrest growth of this harmful greenhouse gas and limit its contribution to global warming.

Methane emissions: a climate wildcard

While methane (CH₄) is not as plentiful as carbon dioxide, it has a very high warming potential. Over a period of

100 years, CH₄ has a global warming potential 28 times larger than CO₂. Over shorter time frames, this warming potential compounds to much higher levels.

Methane's natural cycle is heavily influenced by human activity. About 50% of methane derives from human activity. The largest source of anthropogenic methane is agriculture, representing about 20% of emissions, big sources include rice fields and animal farming, particularly enteric fermentation by cows and manure. Fossil fuels are responsible for another 17% while landfills represent 8%.

The thawing of the world's permafrosts also represents a key threat. Thawing of permafrost leads to decomposition of materials which generate methane.



While this represents a small fraction of emissions currently, global warming could lead to a great increase in emissions. Temperatures in the Arctic region have been increasing at double the global average rate – what scientists call “Arctic amplification”.

Because methane has a short atmospheric life, and the extent of human interference on its natural cycle, rapid action now can quickly reduce atmospheric concentrations.

Why decarbonisation needs a methane strategy

A substantial part of anthropogenic methane emissions come from natural gas production. While it has long been heralded as a transition fuel, recent research has raised doubts about the environmental merits of natural gas due to leakages (known as fugitive emissions) throughout the natural gas supply chain.

Methane's natural cycle is heavily influenced by human activity. About 50% of methane derives from human activity. The largest source of anthropogenic methane is agriculture, representing about 20% of emissions, big sources include rice fields and animal farming, particularly enteric fermentation by cows and manure. Fossil fuels are responsible for another 17% while landfills represent 8%.

Addressing methane matters for three reasons. First, it would be helpful to reduce emissions from gas-fired power plants in the transitional period while renewable sources of electricity are being scaled up.

Second, while renewable sources such as wind and solar will be the dominant sources of electricity in the future, there may still be a need for some gas, combined with carbon capture and storage as back-up capacity.

Third, electrification is unlikely to cover all energy needs. ‘Green’ hydrogen can be produced using renewable energy sources, but some of the required hydrogen will need to be ‘blue hydrogen’, produced using natural gas as a source fuel coupled with carbon capture and storage. Addressing methane leaks would help make blue hydrogen a credible low-carbon solution.

Solutions are ready and need to be scaled up

Methane emissions are not an intractable problem. Technical solutions exist today. Additionally, addressing the issues can make good financial sense; a study from the United Nations identified that just over 50% of available measures have cost benefits – the measures pay for themselves quickly by delivering cost savings.

Detecting and addressing fugitive emissions is critical and solutions such as infrared cameras have become the most widely adopted technology. Satellite imagery is increasingly used to identify problem areas.

Avoiding methane emissions is, of course, the best option when it is technically and economically feasible, for example, by renewable energies displacing fossil fuel-based power generation.

Innovations within the waste management sector are diverting more waste away from landfills. However, for existing landfills, reducing fugitive emissions can be achieved with equipment upgrades and capture technologies.

Landfills across the globe are increasingly being equipped with methane capture and purification technology, which enables methane to be used as a renewable natural gas.

The growth in plant-based foods would be an effective way of reducing food's methane footprint – as well as reducing water, carbon and biodiversity footprints. Additives for animal feed

that reduce rumination are also being commercialised. At the same time technology capturing methane from manure to make renewable natural gas is evolving.

Avoiding a methane bubble

Awareness of the need to address methane emissions is gathering momentum. Better understanding of the science, increased scrutiny from stakeholders including investors, regulatory support as well as companies' acceleration in sustainability targets are all contributing to a favourable backdrop for solutions to the methane challenge, which we expect to lead to attractive growth but also help tackle climate change.



By Maxime Le Floch

Investment Analyst at Regnan (the Responsible Investment affiliate of J O Hambro Capital Management)

The United Nation's Intergovernmental Panel on Climate Change (IPCC) report: Why the detail matters to energy investors

The United Nation's Intergovernmental Panel on Climate Change (IPCC) report will shock many people.

The data speaks for itself and illustrates the most important challenge facing humanity over the next 100 years. We expect the IPCC report to shock government leaders and lead to actionable policies being implemented at the UN Climate Change Conference of the Parties (COP26) in November.

These policies will provide a more transparent framework for industry participants to accelerate investment and accelerate the energy transition.

By investing in industry-leading sustainable companies in areas such as batteries, electric vehicles and wind power, investors are helping to enable the transition while at the same time capturing the benefits of sustainable profitable growth.

The energy transition is a massive challenge, but should also be seen as an incredible opportunity.

Schroders

COP26 – A global policy needs a global carbon price

The UK is aiming to use the COP26 presidency as an opportunity to call on all countries to set 2030 emissions reductions targets that put us on a path to net-zero by 2050.

We would also expect to see more nations discuss the goal of adopting formal carbon pricing mechanisms (either taxes or trading schemes) and potentially Carbon Border Adjustment Mechanisms (CBAM) too.

Initially it will apply only to a selected number of goods at high risk of carbon leakage, such as iron and steel, cement, fertiliser, aluminium and electricity generation. Ultimately, the CBAM will help reduce the risk of carbon leakage by encouraging producers in non-EU countries to green their production processes. It also encourages other countries globally to adopt formal carbon mechanisms, something that will again be crucial to achieving our net zero goals.

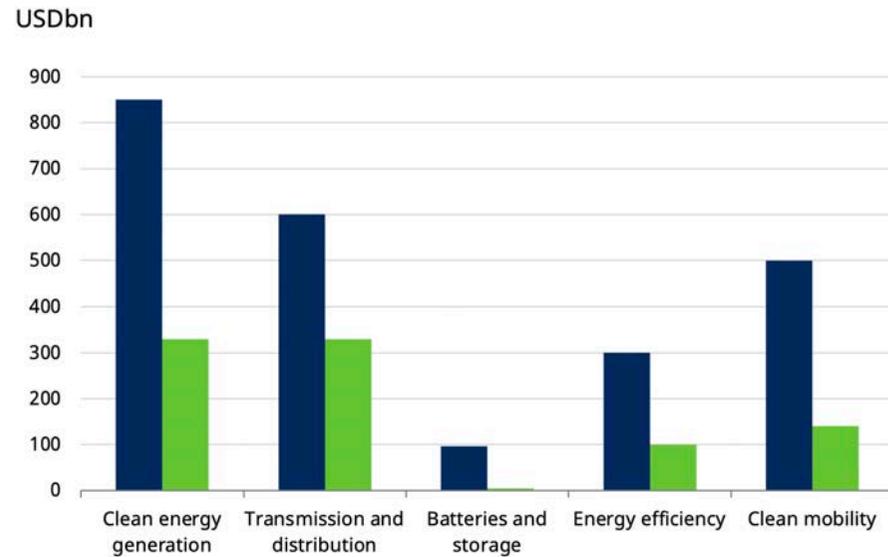


Transparent framework = higher investment and earnings growth

From an environmental perspective the benefits are obvious, but from an investment perspective the transparency and opportunity for long-term investors is very powerful.

We really believe that investment levels need to increase substantially from here in order to enable the change. For example, the chart below highlights the current annual investment rates in the broad subsectors that directly benefit from the 'energy transition' infrastructure spend. The current annual investment rates appear large, but it is not enough. It is not enough by a wide margin.

Required annual investment vs current annual investment (\$bn)



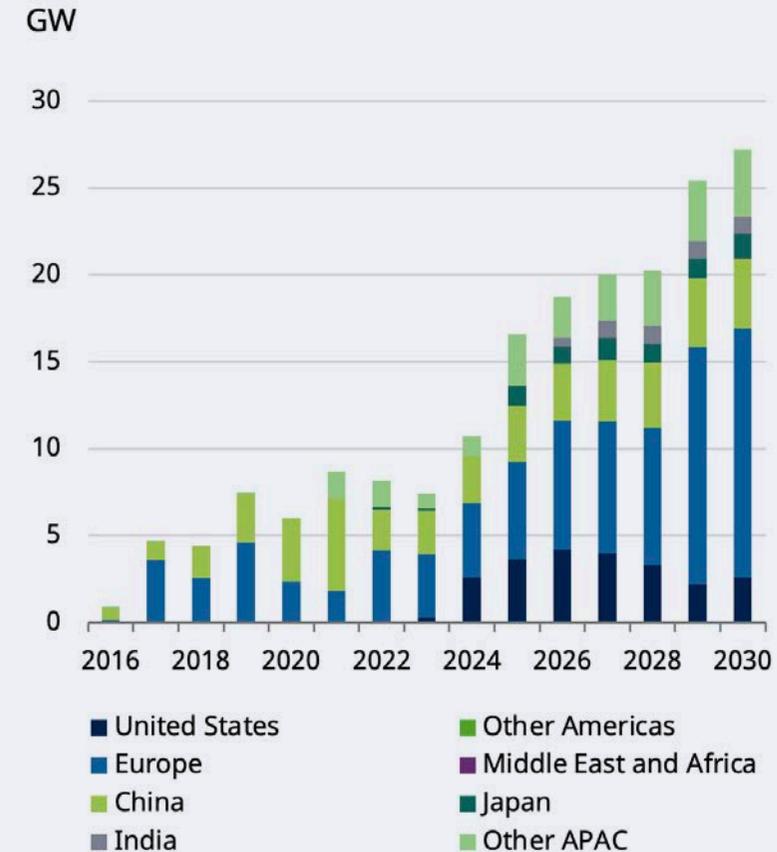
Source: BNEF, IEA – July 2021

Wind power

The wind market is a perfect example. Along with other capabilities, the wind generation capacity will need to grow substantially from here in order to fully decommission coal fired power generation by 2050. This is an industry that has been ticking along for the last decade, slowly improving profitability as costs have been driven down to a point that now make the technology cheaper than coal or gas fired generation.

Costs have been driven down through technological advances that have led to bigger, more efficient turbines, and through consolidation, with fewer industry participants having a bigger market share.

Global offshore wind annual demand forecast



Source: BNEF, Company data – July 2021

Again, the UK is at the forefront of making offshore wind projects easier to get sanctioned, and encouraging investment in domestic capacity to enable the installation of offshore wind farms.

We expect offshore wind installations to accelerate over the next few years, to the extent that we would expect the offshore market to treble in size. Which is extremely positive for turbine manufacturers, array and transmission cable installers, blade manufacturers and wind foundation providers. From an investment perspective the long-term growth outlook could not be better.



Electrical vehicle market

We expect the global battery market, to be another direct beneficiary of an accelerated and more coordinated government policy. The consumer has a very important role over the next few decades, as we phase out internal combustion engines (ICE) and move towards electric vehicles (EV) in passenger vehicle market.

The investment requirements for the electrical vehicle market are substantial and if anything, we think underestimated. In addition to the original equipment manufacturers (OEM) platforms, there needs to be a significant amount of investment in battery manufacturing capacity and charging infrastructure, in order for this to work and be viable for consumers.

Based on relatively low EV penetration rates in 2030, annual battery demand is expected to grow by ten-fold over the next decade, which we think is likely to prove conservative if more countries commit to a 2030 phase out deadline.

The battery market will still need to grow at very high growth rates beyond 2030, if we are to assume that the 1.4bn passenger vehicle carpool is replaced by the time we get to 2050, which is why the long term investment opportunity cannot be overstated.

It is estimated that the current capital requirements are only a fraction of what is needed to be spent in order to meet the requirements of a 2030 deadline in

Based on relatively low EV penetration rates in 2030, annual battery demand is expected to grow by ten-fold over the next decade, which we think is likely to prove conservative if more countries commit to a 2030 phase out deadline.

key economies. Again, investment rates will have to increase.

In summary, the IPCC's report has added impetus to what we already knew. Although it paints a gloomy picture, there are grounds for optimism based on the fact that real action will now be taken. The global problem should be seen as a global opportunity.

To read our latest sustainability insights click here and visit [schroders.com](https://www.schroders.com) to find our more about our sustainable investment funds.



By Mark Lacey

Head of Global Resource Equities and Manager of the Schroder Energy Transition Fund at Schroders

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The appliance of science

Why more companies are seeking expert validation of their emission reduction targets and how investors can use it to tackle climate change and improve financial performance.

The latest IPCC report sounded an unequivocal warning that we must drastically curb the emissions causing global warming to avoid the catastrophic impacts of climate change. While hopes are pinned on strong political action at COP26 in November, investors should welcome the Science Based Targets initiative (SBTi) which is driving positive private sector change.

SBTi enables companies to set emissions reduction targets aligned with the Paris Agreement and aims to standardise and validate decarbonisation plans through independent assessment in line with climate science. This is useful for investors as it provides comparability of temperature targets and a stamp of approval from experts, rather than allowing companies to set and mark their own homework when it comes to emissions reduction.

The SBTi's five-step process requires signatories to commit to, develop,

submit for validation, communicate and then disclose progress towards their targets. Companies from over 50 sectors are working with SBTi, which provides industry-defined guidelines and tailored guidance for the highest emitting.

Strong momentum

Since launch in 2015 as a partnership between CDP, UN Global Compact, World Resources Institute and the WWF, SBTi has experienced tremendous growth. More than 1,000 businesses have signed-up, including over 40% by weight of the MSCI World index which have either targets or commitments in place (figure 1). Nearly 60% of the MSCI Europe index are on board and over 40% of MSCI North America, where the rapid growth reflects the change in US political winds and President Biden's greener policies (figure 2). Apple, Amazon, Walmart, Visa, AT&T and Pfizer are among those to have joined, with growth in further signatories expected to continue accelerating.



Fig 1: Rapid SBTi growth among MSCI World index companies...

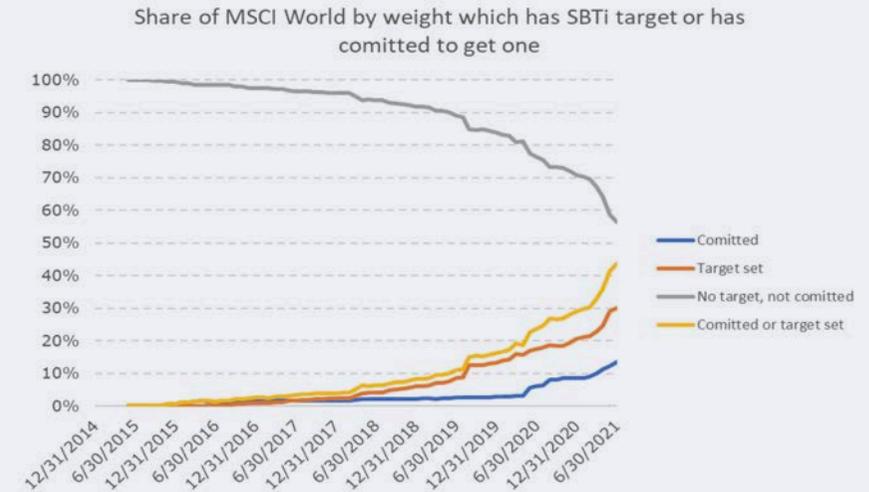
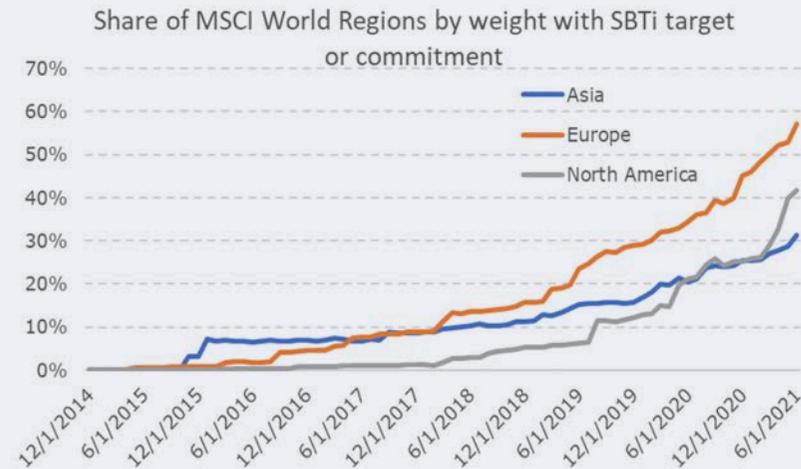


Fig 2: ... led by Europe although North America is rapidly gaining ground.



Source: Storebrand, using calculations from MSCI and SBTi, as at 30/06/21



With an increasing number signing up for scientific scrutiny of their climate plans, helping to cut emissions and boost financial returns, shouldn't you ask your fund manager how they are integrating SBTi into their investment decision-making?

The good news for our planet is that the initiative is starting to bear fruit. In its 2020 Progress Report, SBTi reported that 338 companies with approved targets collectively cut their annual emissions by a quarter between 2015 and 2019, equivalent to the annual emissions of 78 coal-fired power plants.

Financial sense

Science-based targets are a key tool for investors to manage their portfolio's climate risk and have been one of the building blocks of Storebrand Global ESG Plus since November last year. The fund is around 10% overweight in companies that have adopted SBTi, meaning over half of its assets are invested in stocks with verified emission reduction targets or commitments in place.

An example is Daimler (Mercedes Benz) which in November 2019 announced a commitment to halve absolute scope 1 and 2 GHG emissions by 2030 versus 2018 levels and reduce scope 3 GHG emissions by 42% over the same period, consistent with achieving 1.5°C warming. It also plans to invest over €40bn into EVs by 2030 while from 2025 all newly launched vehicle architectures will be electric-only and customers will be able to choose an all-electric alternative for every model.

This not only benefits the environment but also makes financial sense. Since announcing its science-based targets, Daimler's shares have outperformed the STOXX Europe Auto Index by around 18% while its position in our fund has climbed from 0.07% of assets to 0.27% (compared to an index weighting of 0.13%).

We strongly believe that climate policy will increasingly impact companies' abilities to generate competitive returns and that those with rigorous targets are best positioned to benefit from the upsides of climate mitigation while avoiding the risks. With an increasing number signing up for scientific scrutiny of their climate plans, helping to cut emissions and boost financial returns, shouldn't you ask your fund manager how they are integrating SBTi into their investment decision-making?



By Henrik Wold Nilsen

Senior Portfolio Manager at Storebrand Asset Management

¹ Weightings as at 30/06/2021. Source of share price performance: Daimler. 2/12/2019 – 19/08/2021. Daimler AG +39.65% vs. STOXX Europe Auto Index (SXAP) +21.88%. At present, Storebrand's sustainable funds may be accessed for investment via the following distribution platforms: Transact, Standard Life, Aviva and AJ Bell, with more soon to follow.

The best represented sectors are Consumer Staples, Consumer Discretionary and IT with over 50% of companies by weight in each having SBTi targets or commitments, while Financial Services (15%) and Energy (3%) are the laggards. We await guidelines for Oil and Gas companies which are still to be finalised and hope that SBTi will maintain its high level of integrity for this difficult sector.

Guidance for financial institutions was published in April and included three methods for setting science-based targets. One is the SBTi Portfolio Coverage Approach whereby engagement targets are set "to have a portion of their investees set their own SBTi-approved science-based targets such that the financial institution is on a linear path to 100 percent portfolio coverage by 2040". Storebrand has joined a CDP campaign to accelerate target adoption in the corporate sector which aligns with this goal.

Impact investing: innovating for environmental sustainability

Views expressed are those of the author(s) and are subject to change. Other teams may hold different views and make different investment decisions. While any third-party data used is considered reliable, its accuracy is not guaranteed.

Did you know?

- Renewables are expected to meet nearly 30% of power demand by 2023¹.
- Efficient production and use of materials could help cut emissions of carbon dioxide (CO²) by 25 gigatons².
- In 2017, 92.1 billion tons of material were consumed globally³.

Climate change has been dominating conversations again, given the recent

headlines about widespread flooding and wildfires and the release of the latest report from the Intergovernmental Panel on Climate Change. We see growing numbers of companies looking for capital to provide solutions and of investors eager to help fund them.

Impact investing targets the stocks and bonds of companies and other entities which are helping to tackle the world's major social and environmental challenges. Many of these enterprises contribute to environmental sustainability and help society better prepare for climate change. Here, we share some of the environmental and climate-related innovations we are seeing across the impact investing universe.

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Alternative energy

In our view, the global energy infrastructure needs to evolve to support the transition to a low-carbon economy. Alternative energy sources like solar, wind and hydropower help to reduce emissions of greenhouse gases (GHGs) and slow the global rise in temperatures. They also contribute to better health and drive both social benefits and cost savings.

- Many companies are building and operating wind and solar power on a massive scale, helping economies to reduce their carbon emissions quickly and efficiently.
- We continue to identify innovative solutions for power storage and distribution.
- Solar companies design, manufacture and distribute photovoltaic systems and solar modules that convert sunlight into electricity, preventing CO² emissions.
- Fixed income issuers in our opportunity set include banks and supranational organisations that have issued green bonds for renewable energy generation projects, including solar and wind farms. This theme also includes investments in corporate issuers using the green bond market to finance the modernisation of the electricity grid or the shift from fossil fuels to renewable energy sources.

Resource efficiency

Human consumption of non-renewable resources like fossil fuels, metals, minerals, arable land, water, timber and clean air is increasing even as their supply is declining. Shifting to more responsible and more efficient methods of extracting, producing and distributing these resources is vital for the environment and the global economy. This can help to cut waste and pollution, save money and improve people's health.

- We have identified several companies that use smart-metering technology to help customers save energy and reduce waste, lower costs and shrink their carbon footprints.
- Water-pipe manufacturers are developing efficient drainage structures that mitigate water scarcity.
- Fixed income issuers we have identified include those underwriting transport infrastructure projects. We also see opportunities among issuers creating energy-efficient office spaces, using innovative systems that reduce CO² emissions and water usage. Their designs can improve workers' productivity and tenants' health over the long term.

Resource stewardship

The need for better stewardship of natural resources is becoming acute amid continued population growth and rapid urbanisation. Moving towards self-sustaining, regenerative production and consumption systems and upgrading infrastructure and technologies for safe, effective resource management may become an economic necessity. Decomposing landfills release harmful GHGs, and run-off pollution contaminates surface and groundwater, forming breeding grounds for diseases like cholera and malaria.

- Sustainable waste-processing and recycling companies aim to achieve zero waste and minimise landfill use. Technologically advanced closed-loop systems turn waste into energy and destroy or recycle hazardous materials, such as from electronic products, pharmaceuticals and cars.
- Other opportunities include metal-recycling companies and manufacturers of bioplastics and other sustainable materials. By preventing the harm caused by microplastics in soil, sediment and fresh water, these may have long-term positive effects on sea and land ecosystems.
- Fixed income opportunities include municipal bonds issued by not-for-profit organisations to buy and conserve land, including forests. We have also identified debt issued by recycling companies to fund advanced solutions for waste, particularly from building projects.

Conclusion

Across the impact investing universe, disruptive companies and issuers are developing environmentally focused solutions to help society mitigate or adapt to the effects of climate change. We believe these will contribute to a more sustainable future for humankind and the planet while also potentially representing long-term growth opportunities.

For more information, please visit <https://www.wellingtonfunds.com/en-gb/intermediary/investment-ideas/sustainable-investing/invest/>



By Campe Goodman and Tara Stilwell

Portfolio Managers at Wellington Management



Footnotes

1“Renewables 2018: Analysis and reports to 2023”, International Energy Agency, 2018.

2“Materials used to build cars and homes key to tackling global warming”, UN Environment Programme, December 2019.

3“Special edition: progress towards the Sustainable Development Goals”, Report of the Secretary-General, United Nations Economic and Social Council, May 2019.

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