EVERYTHING ETHICAL
MONTHLY NEWSLETTER

Everything Ethical Newsletter – December 2023

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Market Commentary

We had highlighted the importance of the central bank pivot over recent quarters, and once it finally materialised the market reaction and portfolio performance were as expected. Our positioning has allowed us to capitalise in the latter months of the year, as December saw a continuation of November's sentiment, with market expectations for aggressive interest rate cuts in 2024 consolidating. Bond yields continued their fall whilst equities continued their march upwards as stability with interest rates has led to a more confident investment outlook.

This outlook favours long-term and more capital-intensive infrastructure and growth investments, and whilst there may be the odd bump in the road, we see this trend as established and beneficial to portfolios. Vestas Wind Systems, a global manufacturer of wind turbines, saw a flurry of orders to end the fourth quarter with a record number of orders. With COP28 seeing a host of countries sign up to triple renewable energy capacity by 2030, continued growth is expected, particularly in solar.

Central banks, whilst leaving rates unchanged, have tried to temper interest rate cut expectations with some hawkish rhetoric and talk of inflation risks. Expectations have pivoted dramatically from the higher for longer to peak rates and cuts to come, which has fundamentally changed the narrative. It will require significantly more hawkish comments now for Central Banks to temper market sentiment, and whilst we expect them to continue the hard stance for the time being, we feel the market will look past this.

Data out of the US suggests the economy remains resilient for now, with inflation continuing to fall, leading to an increasing number of commentators predicting an economic 'soft landing'. Elsewhere, signs of economic weakness are becoming more evident in the UK and Eurozone where a recession is a more consensus view. Increasing numbers of job losses has in particular caught the eye, combined with other data points, such as PMIs, the global economy is slowing down and will continue to do so into 2024. However, as long as the hard landing is avoided, with money parked on the side in money market investments, we expect equities to be supported in the year ahead. We expect this support to be different compared to 2023, and money to broaden away from the small handful of large cap names and small and mid-cap stocks to be supported, something we are positioned for given the positive investment focus of portfolios.

Whilst there are clear disinflationary trends at play globally, caution must be paid to the risks that run counter to this. Most prominent amongst these in December was geopolitics, where we saw attacks on shipping lanes in the Red Sea by Houthi militants. Red Sea trade routes handle around 12% of the world's commerce, and during the month major freight and commodity companies ceased shipping for periods of time. Amongst other things, this has placed upward pressure on the oil price, which has been a great source of disinflation in recent months. Whilst this, alongside other geopolitical events, have been contained and managed so far, it is evident that risks remain.

A reacceleration of inflation would significantly reduce the chances of an economic 'soft landing' as financial conditions would have to remain tighter for longer. Alongside geopolitics, increasingly unusual weather patterns have been disrupting the supply side and the impact of this is only going to increase as efforts to mitigate and adapt to a changing climate continue to fall meaningfully short of what is required. On the flip side, base effects, energy prices and improvements in the supply chain, alongside a weakening labour market that should ease wage pressures means we remain confident in the disinflationary direction of travel. As a third difficult year for portfolios comes to an end, we enter 2024 on the back of two strong months of performance and reasons to be cautiously optimistic.

Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

Performance:

Funds MPS	Dec 23
Defensive	3.95%
Cautious	5.15%
Income	5.38%
Balanced	5.43%
Balanced Growth	5.96%
Growth	6.41%
Adventurous	6.85%

MPS Stock pick feature:

The Renewables Infrastructure Group (TRIG) has a purpose to generate sustainable from a diversified portfolio of renewables infrastructure that contributes towards a net zero carbon future. TRIG was one of the first investment companies investing in renewable energy infrastructure projects listed on the London Stock Exchange, with its IPO in 2013.

Their diversified portfolio of 90 projects includes onshore and offshore wind farms and solar parks in the UK and Europe. They have recently added further battery storage assets to their stable, to further diversify the portfolio but also look to address issues where energy is abundant.

As at the end of the first half of 2023 the TRIG portfolio had avoided 1m tonnes of carbon emissions, and powered 1.7m homes with 2,919 GWh of renewable energy. TRIG also has 20 active Environmental Management Projects within the portfolio with a commitment to reduce resource consumption and minimise biodiversity loss.

Finally, TRIG has 38 Community Funds in their portfolio, where there is a formal agreement to provide funding to a specific community, to aid promotion of responsible supply chains and support community engagement.

Fund House Meetings:

Engagement with Asia Energy Impact Trust (Direct Equity portfolios – currently suspended)

During December we met the new Asia Energy Impact Trust (formerly known as ThomasLloyd Energy Impact Trust) managers Octopus Energy Generation following the publication of the trust's NAV. The portfolio now consists of 11 operational projects, 1 construction project and 1 development project. Since IPO the NAV total return has been -47.5% which is disappointing and the board fully acknowledges this. The impression we got is that this stems from poor management by the previous investment managers, with the new team overhauling many elements of how the portfolio is valued. The company now expects the 2022 annual report and 2023 interim report to be published by the 19th January 2024, at which point they will apply to the FCA to restore their listing as soon as possible. There are also plans for further investor roadshows which we shall attend and update on in due course.

Also, in December we met with numerous Fund Management teams to get their end of year reflections and thoughts for 2024.

Ethical News

The 'world's longest' land and subsea electricity interconnector, capable of powering up to 2.5 million homes, has begun commercial operations between the UK and Denmark. A £1.7bn joint venture between **National Grid and Danish system operator Energinet**, the **Viking Link** interconnector has a capacity of 1.4GW and stretches for 475 miles to join Bicker Fen substation in Lincolnshire with Revsing substation in southern Jutland. Run by National Grid Ventures (NGV), which operates outside of National Grid's core regulated businesses, the link will initially operate at 800MW capacity, with the plan to increase to 1.4GW over the coming year. According to estimates, in its first 12 months, the Viking Link is expected to save approximately 600,000 tonnes of carbon emissions, equivalent to taking roughly 280,000 cars off the road. **Prysmian Group**, a stock held in some of the funds, began manufacturing the cables for this project back in 2019. They used their cable-laying vessel, named Leonardo da Vinci to complete the task.

To highlight what we have mentioned previously in this edition, Danish wind turbine manufacturer **Vestas Wind Systems** ended 2023 with a sprint, that brought Q4 orders to a record, with no reason to expect a slowdown in 2024. One of the orders disclosed in December was a 1.4 GW preferred supplier agreement alongside Vattenfall for UK offshore wind projects and exclusivity agreements for 2.8 GW for two other UK projects. These agreements are another step in the right direction for offshore wind energy in the UK, following the UK Govts recent positive step forward re price support (*mentioned in last month's Everything Ethical*), which sent a very positive signal to renewable energy investors.

Coffee is a circa $200bn industry that stretches from small farms across Brazil or Indonesia, to roasters and makers of end products such as Nestle, the Swiss maker of Nespresso and Nescafe. **Increasing erratic weather is putting Coffee crops at risk globally, as climate change parches the world's key growing regions.** In Vietnam, where the hardy robusta is the most produced bean, alarm bells are ringing. Some farmers are having to dig deeper to get water during dryer times, and during the rainy season, some farmers state that there is too much rain. Nestle is among those grappling with the change. *"Estimates show that 30 years* *from now, basically 50% of coffee lands as we know them today will not be viable for coffee production anymore"* if climate change isn't tackled, the global head of Nestle's coffee strategic business unit said recently. Nestle is a major consumer of robusta - around the world, consumers drink more than 6,000 cups of Nescafe every second. In 2022, it said it would invest over one billion Swiss francs by 2030 to encourage growers supplying its Nescafe brand to use more sustainable farming methods as extreme weather threatens crops, and to adapt. That includes replacing existing trees with varieties that can better cope with climate change.

Most cotton garments end up as landfill, but **Seattle-based startup Evrnu** claims it can recycle those items. This textile expert company will have its first commercial facility completed in 2024. Once built, the company will have the ability to manufacture 18,000 tons of its Nucycl® fibre per year, reducing cotton waste and avoiding landfill gas emissions, with a carbon footprint of -25,000 CO_2e. The same amount of cotton production would typically consume over 36 million tons of water, whereas Nucycl® will consume less than half a million. The cycle starts with used cotton-rich textiles and production waste, which Evrnu works with textile recyclers, brands and retailers to source. The textile waste is then shredded, liquified, purified, and transformed into Nucycl® lyocell fibre, which looks and performs the same as, if not better than, virgin fibre. This 'new' regenerative fibre can be recycled again and again to make new products over and over.

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