

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – September 2023

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Market Commentary

US inflation cooled again in August, marking the third consecutive month price pressures moderated, a trend witnessed in many other major economies such as UK and Euro area, further prompting calls that we are near the end of the current rate hiking cycle. However, oil approaches the \$100 a barrel level which, as previously described, will have knock on effects for inflation and also portfolios performance. With the inflation fight not fully over, anything to fuel price rises (energy and wages appear to be the major concerns at the moment) will weigh on risk assets.

The Federal Reserve meeting in September suggested one more rate hike this year, and investors are now tackling the higher for longer scenario, with rate cuts now seemingly further down the line. This, coupled with higher fiscal spending and a lack of central bank buying, will inevitably mean steeper curves, and the UK thirty-year gilt has moved back towards the 'Liz Truss highs' once more. Portfolios sit just above their neutral level for fixed income allocation, however extending duration is something we are hesitant to do at this moment in time.

Elsewhere, the negative screen is once again weighing on portfolios relative performance, given the avoidance of fossil fuels, with the energy sector outperforming many sectors by double digits in the third quarter. This does, once again, throw into the limelight the need to transition away from fossil fuels, given the reliance on cartels such as OPEC+ who can manipulate the price of energy by reducing supply (not to mention the climate need).

This comes at the same time that the higher cost of capital has weighed on renewable energy, and there is heightened pessimism towards the sector currently. A leading clean energy index was down 20.5% for the third quarter, with wind and solar projects coming under pressure, despite the subsidies on offer. Portfolio holding, Vestas Wind Systems (manufacturer of Wind Turbines), saw a very solid order intake for the third quarter, and with US order intake the highest it's been in almost four years, the US Inflation reduction Act is beginning to make material headway. However, this is failing to feed through to the share price given the aforementioned concerns.

A stronger dollar and higher US rates have been impacting emerging markets, whilst weakness in the Chinese economy is also dragging on the region (and beyond). However, our developing market exposure has held up relatively well over the month, with the India growth story, driven by robust domestic demand and infrastructure spending, resulting in a resilient Indian economy despite wider global headwinds.

Closer to home, the UK composite PMI for September was revised slightly higher to 48.5, little change from the August figure of 48.6. The cost-of-living crisis and higher interest rates are

impacting the UK consumer, and house prices continue to deteriorate. However, inflation remains high versus other developed nations, and the UK economy runs the risk of entering stagflation.

Model Portfolio transactions in the month:

There were no changes to portfolios in September.

Performance:

Funds MPS	Sept 23
Defensive	-1.37%
Cautious	-1.96%
Income	-2.31%
Balanced	-2.00%
Balanced Growth	-2.18%
Growth	-2.05%
Adventurous	-1.93%

Direct Equity MPS	Sept 23
Cautious Green	-2.06%
Light Green	-1.80%
Mid Green	-2.60%
Dark Green	-3.02%

MPS Stock pick feature:

Evoqua Water Technologies are a global water technology leader focused on helping their customers solve the world's toughest water challenges. Through innovative products, services, and solutions based on technology and expertise, they aim to make water more accessible, more affordable and communities more resilient. The Company offers filter press, intake rebuilds, and electrocatalytic services, as well as sludge dryers, digester covers, captivator systems, and other related technologies to the industrial, commercial, and municipal water treatment markets.

Fund House Meetings:

In a back-to-back meeting, we had discussions with Schrodgers Asset Management fixed income and property teams, with both meetings focussing on the sustainability approach of their respective funds.

Whilst we have favoured Stewart Investors (held), we met with Alquity regarding their India Subcontinent fund, and continue to engage as part of our ongoing DD.

We have been conducting a wider review of clean energy funds, as a result we held a meeting with the RobecoSAM Smart Energy Team, whilst also kick starting our engagement with Polar Capital.

We joined GlobalX in a discussion surrounding the future of mobility and the prevailing investment opportunities. Global X partnered with leading consultants in the electric vehicle, and battery space Rho Motion to bring members of the investment industry together.

We had a meeting with RM Funds regarding their Alternative Income fund. It provides similar exposure to clean energy infrastructure, so we engaged with the manager on their process and investment outlook.

We met with the US fund house, Lord Abbett, regarding their healthcare fund. Further meetings with the fund team will be taking place in October. We have also begun due diligence on a number of other healthcare funds.

We also had discussions with the Rathbones fixed income team, regarding new investment opportunities.

Ethical News

The 2023 **Africa Climate Summit** saw the African Heads of State and Government gather to discuss the theme 'Driving Green Growth and Climate Finance Solutions for Africa and the World'. Highlights include urging world leaders to rally behind a new **global carbon taxation regime**, including a tax on fossil fuel trade, transport and aviation. A new financing system in order to tackle Africa's needs, including **debt restructuring**, highlighting the acceleration required to meet the Paris 2030 agreements. They echoed the statement of the Paris Summit for a New Global Financing Pact that no country should ever have to choose between development aspirations and climate action.

UK Prime Minister Rishi Sunak has disappointingly prepared a **bonfire of decarbonisation policies**. From delaying the target date for ending the sale of internal combustion cars from 2030 to 2035, to relaxing the gas boiler phase-out target by 2035, these retrograde steps will undermine investment, restrict job creation, weaken energy security, and lead to higher energy bills for longer, in addition to making it considerably harder to meet the UK's legally binding emissions targets. Sunak argues taking a more pragmatic, market and innovation-led approach to net zero will minimise the shock to consumers and still unlock the economic opportunities on offer.

The State of Nature report 2023 has revealed **UK wildlife continues to decline**. Nearly 1 in 6 out of the 10,000-plus species surveyed risk being lost. Top groups in decline include 43% of birds, 31% of amphibians and reptiles and 28% of fungi and lichen. Turtle doves, water voles, and lady's slipper orchids are among the species most affected. The worst-hit group, however, is the pollinators, falling by 18% on average. Hilary McGrady, Director-General for the National Trust, comments the report is yet another urgent warning that we need to accelerate efforts to tackle the nature and climate crisis. This is reinforced by the fact the **UK has less than half of its biodiversity remaining**, due to human activity.

UPS and Coventry-based **Aurrigo** have revealed a collaborative project to deploy an **autonomous electric vehicle designed to move heavy cargo** loads to and from aircraft at the UPS hub at East Midlands Airport. It can transport loads of up to 7.5 tonnes and is designed to tow a further fully loaded cargo trailer behind it. Not only does it free-up security-cleared drivers, it increases safety and produces zero emissions, helping to limit the carbon emissions released by the aviation sector.

The UK failing to secure offshore windfarms at auction has been branded to be the **biggest clean energy policy failure** in almost a decade. Up to 5 gigawatts of offshore wind was eligible to compete, which **could have powered nearly 8 million homes a year**. Firms had warned ministers repeatedly that the auction price was set too low for offshore windfarms to take part, after costs in the sector soared by about 40% across their supply chains. This means the UK may miss out on billions in investment and push up bills further.

Wight Shipyard, an aluminium shipbuilder, **has delivered the UK's first hybrid passenger ferry**. Helping to reduce air pollution within the clear air zone, the 'Earth Clipper' is a parallel hybrid with more than 500kwh of battery capacity, able to run at 15 knots on electric mode, before having to switch to diesel. The Wight Shipyard Co. has built Thames Clipper vessels since 2017 when the shipyard received its first commission. Since then, three of the innovative, high-spec and highly durable Thames Clippers have been built and are a much-loved part of London's waterway, as well as being a vital and eventually net zero carbon commuting option.

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