KING & SHAXSON
Asset Management | Rewarding your Values

20 YEARS ANNIVERSARY

WINNER THREE TIMES
Investment Life & Pensions Moneyfacts Awards 2020 -2022
Best Ethical Discretionary Fund Manager

MODEL PORTFOLIO
POSITIVE OUTCOME
PORTFOLIO REVIEW

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Introduction

At King and Shaxson Asset Management, we are celebrating our 20th Anniversary in managing ethical portfolios.

Our approach has always been to apply a strong negative screen, avoiding investments that are detrimental to society or the environment. Since 2002, the need for a meaningful positive screen has grown rapidly, meaning we also seek those companies that have a genuine positive impact, but which are also financially sound investments.

Greenwash, whilst first coined back in the 1980s, is a phrase that is only beginning to enter the mainstream, an inevitability following the growth of ESG and impact investing. We first wrote about Greenwash in 2006, and have always sought to avoid it through our thorough screening process.

As we mentioned in our 2022 fourth quarter report, 2022 was a year that most ESG and impact investors were glad to see the back of, and given our personal investments mirror that of our clients, we have also felt the same.

Given the asset moves over the last year, we understand the distress it has caused investors, particularly lower risk portfolios. Whilst we have covered some key investment commentary in our quarterly valuation, this report seeks to update our investors on some of the key positive investments portfolios are exposed to, from clean energy to mobility. This includes highlighting examples of support of the United Nation's Sustainable Development Goals. Highlighted in the graphic below, the 17 goals are part of the 2030 agenda to achieve sustainable development for all.

The direction of capital towards these key areas is vital to ensure we move to a more sustainable and equitable way of living. A recent report from the United Nations Environment Program and the World Meteorological Organisation showed that airborne chemicals that destroy the ozone are declining for the first time. Whilst we have so much further to go to protect our planet, this highlights that progress is being made and change can happen.

THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT PROVIDES A SHARED BLUEPRINT FOR PEACE AND PROSPERITY FOR PEOPLE AND THE PLANET, NOW AND INTO THE FUTURE.

Source: United Nations

Clean Energy

Power generation from fossil fuels is one of the largest single contributors to global greenhouse gas emissions. This makes the development of clean energy solutions vitally important in our fight against climate change. When Russia's invasion of Ukraine triggered a global energy crisis, traditional energy stocks performed well amidst surging oil and gas prices, and even saw countries fire up old coal plants.

Whilst some were fearful that this would be a setback for the clean energy transition, we believe it will be a catalyst for greater action. The war has shown the social benefits that are to be had, alongside the environmental ones, from a transition to clean energy. The continued development of renewable infrastructure will make access to energy more equitable, where energy supply is more dependent on the sun and the wind, rather than being at risk of the whims of tyrants.

Within this theme we do not just include the production of clean energy, most commonly through wind and solar power, but also energy efficiency and energy storage. This theme directly aligns with the United Nations Sustainable Development Goal 7 - Affordable and Clean Energy. Underlying targets include: ensuring universal access to affordable, reliable and modern energy services; substantially increasing the share of renewable energy in the global energy mix; and to double the global rate of improvement in energy efficiency.

Recent activity from portfolio holdings supporting this theme can be found below:

The Renewable Infrastructure Group (TRIG), an owner and operator of wind and solar parks in Europe, recently acquired Project Spennymoor, a late-stage development battery storage project. The project is situated in County Durham, in close proximity to a high voltage substation connection. It is ideally located to alleviate grid constraints and provide balancing services for the significant industrial cluster in the Humber Region. This joins a number of other investments from portfolio companies in energy storage, which will be vital in our transition.

Power Purchase Agreements

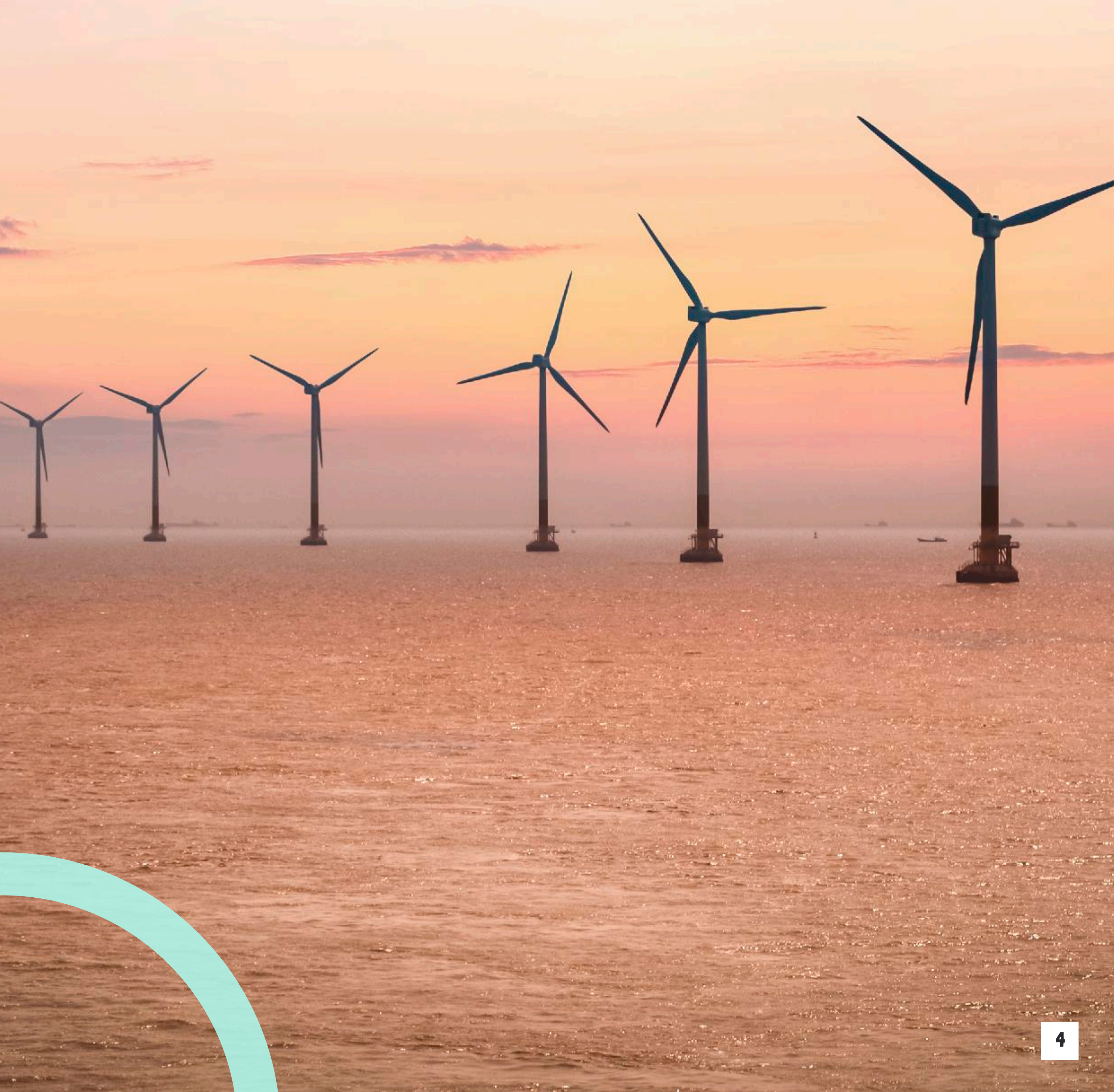
The power purchase agreement (PPA) market continues to expand as corporates look to make progress on decarbonising their energy supplies. Solar and wind energy account for the biggest market share and demand for these will only increase as companies aim to reduce their environmental footprint and meet energy sustainability goals.Recently, portfolio holding, SNCF, the French railway company, agreed to buy 207 GWh of annual electricity supplies under a 25-year PPA, in a bid to strengthen their supply of electricity from renewable sources. This joins the growing list of corporates within the portfolio doing so.

Meanwhile, Asia is an area where the PPA market is projected to expand. The region requires substantial investment in renewable energy infrastructure to help decarbonise its economy, with 85% of its energy consumption still being served by fossil fuels.

Asia has a vital role to play if global net-zero targets are to be met by 2050. However, the region only receives a fraction of global funding for clean and renewable energy. This creates a vast opportunity for investors to plug the funding gap, and investments are emerging, including the ThomasLloyd Energy Impact Trust. In Q4 last year, their portfolio comprised three solar power projects in the Philippines, seven solar power projects in India (including a 200 MW construction-ready asset) and two solar power projects in Vietnam with a combined capacity of 520 MW.

Clean energy solutions are an important theme within clients' portfolios, and one they contribute the most to. Their exposure to it comes from a range of asset classes; fixed income, infrastructure and equity.

The wind sector has suffered over the last two years with inflation impacting margins. However, the outlook is positive, with unprecedented regulatory support and cost pressures reversing.



Mobility

> **WHILST THE ROLL OUT OF ELECTRIC VEHICLES ACCELERATES, THE NEED FOR INFRASTRUCTURE TO SUPPORT THIS IS PARAMOUNT**

According to the International Energy Agency, transport has the highest reliance on fossil fuels, accounting for 37% of CO2 emissions in 2021. In order to reach Net Zero, a target touted by many global governments, a monumental shift to less carbon-intensive modes of transport will be required. This will require innovation in technologies such as batteries, given the focus on electric vehicles (EVs) on the road, whilst innovation in areas such as hydrogen or ammonia is touted to decarbonise shipping.

Not only are EVs good for the environment, they are good for your health. According to the World Health Organisation, 99% of the global population breaths air which exceeds guideline limits due to high levels of pollutants. Air pollution also negatively impacts biodiversity, which causes billions of economic losses each year (health and natural capital is covered further on in this report).

The United Nation's Sustainable Development Goal 11 seeks to make cities and settlements inclusive, safe, resilient and sustainable. Underlying target, 11.2 seeks to "provide access to safe, affordable, accessible and sustainable transport systems for all…". Please find examples of how some portfolio companies are supporting this goal and their recent activity:

National Express provides transport services, mainly buses, in the UK, the US, Spain and Africa. The company has pledged to transition to a fully zero-emission UK bus fleet by 2030, whilst progressing their zero emissions plans elsewhere. Last year they announced they will be rolling out a fully electric bus fleet in Coventry, supported by Transport for West Midlands and Coventry City Councill. This would become the UK's first all-electric bus city, building on National Express' 30% EV fleet which operates in Coventry already.

Whilst the rollout of EVs accelerates, the need for infrastructure to support this is paramount. This includes public and at home smart chargers, but also more industrial-scale charging stations for commercial fleets.

ABB, the Swiss industrial technology company, is a leader in electrification and automation, and amongst other products, is a leading provider of chargers for EVs, buses and trucks. In March 2022, ABB announced they will be installing 23 e-bus chargers for St. Louis's Metro Transit, which is reported to be the largest deployment of chargers for a transit authority in the US. Closer to home, Transport for London introduced ABB's pantograph-based charging system last year under an initial trial, which allows for quick, high-powered charges throughout the day, increasing the bus's service hours. This follows on from similar installations over the last couple of years in countries such as Holland, Austria and Italy.

This style of charging is displayed in the image below:

Housing & Construction

Cement Focus

The cement industry is accountable for around 9% of the world's carbon dioxide emissions (from production through to transportation and demolition). Research from MSCI shows that 70% of construction and material companies have carbon intensity targets in place. However, a large proportion aren't aligned to a net-zero scenario. Whilst negative for climate change, there are also concerns about toxic emissions, waste, biodiversity loss & land use concerns from quarries.

The process and the potential solution

Limestone and clay are ground and roasted in a kiln at temperatures of 1400 degrees + to produce clinker, an artificial stone which is the main ingredient of cement, which is added to gypsum and limestone and then transported for use.

The production of clinker accounts for around 90% of the emissions for making cement. Currently, industry peers are focussed on making existing processes more efficient. However, the speed of change doesn't align to the net-zero scenario, which requires reducing the clinker-to-cement ratio by 1% each year by 2030 (according to the IEA).

France's Hoffman Green Cement offers the world's first zero clinker cement. By removing the heating process to make clinker, the carbon intensity versus incumbents is as much as 5x less. The technical performance is just as good, if not better, than conventional Portland cement, including higher mechanical resistance and better setting time.

On top of this, the input to make the cement is made from industrial by-products that come from various building materials, of which they state are in abundance. This means the process from the very beginning is a shift towards a circular process, unlike traditional processes that require extraction of raw materials from quarries.

Whilst a very small holding in portfolios, the company continues to sign new contracts, including a recent win with Leicestershire-based Cemblend and OCL Regeneration, who will develop concrete and other products using Hoffmann Green cements technology.

Health

Health and wellbeing were thrust under the spotlight following the outbreak of Covid-19, which according to the World Health Organisation, at the time of writing, had infected over 650 million people. One positive to take from this was the increased awareness of health and wellbeing from both consumers and policy makers, resulting in the continued expenditure in this sector, which presents a number of investment opportunities.

Portfolio investments in healthcare are diverse, ranging from companies discovering and developing medicines for underserved diseases, manufacturers of proteins from blood plasma for frontline treatment, producers of surgical products, and life-saving treatment for chronic diseases. Exposure comes through a number of asset classes, and you can find details of these below:

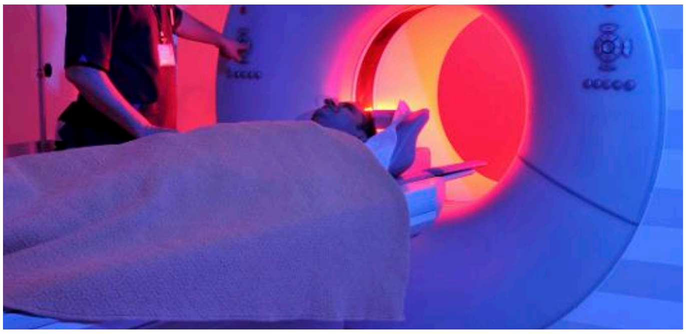
Given the disruption of the outbreak, certain areas of progress unravelled, with immunisation coverage dropping for the first time in ten years. Nonetheless, portfolio holdings continued to have a positive impact in this area. IFFIm, held in a number of bond funds, provides funding for life-saving vaccines for the Gavi Alliance. In Gavi's latest Africa Impact report, they highlighted the 9 vaccines they have introduced into their immunisation programme, from polio to yellow fever. And between 2000 and 2021, the alliance has reached 364 million children. However, vaccine inequity is high given the lack of manufacturing capability in the region, but Gavi is working to increase domestic supply to 60% of required doses by 2040, up from the 0.1% level currently.

Shionogi is a leading drug discovery pharmaceutical company based in Japan. They have a growing product line and currently provide solutions in therapeutic areas such as pain management, including cancer pain relief, as well as central nervous system disorders such as depression and Alzheimer's disease. They are also looking to address antimicrobial resistance, therapy drugs for post-menopausal women, and treatments for chronic liver disease. A recent focus has been on infectious diseases, with an inevitable focus on covid-19 in recent years, including their drug Xocova, which suppresses the replication of the disease and has recently gained approval in Japan.

> **MEDICAL TECHNOLOGY AND ARTIFICIAL INTELLIGENCE HAVE BEEN GROWTH AREAS IN HEALTHCARE GIVEN THE COST SAVING AND EFFICIENCY GAINING POTENTIAL IT HAS.**

Other core healthcare companies in portfolios include ALK-Abello, who produce allergy treatments to alleviate suffering from respiratory issues such as asthma; Novo Nordisk, who is the world's leader in producing insulin for the treatment of diabetes; Pro Medicus, who produce technology for leading healthcare imaging that allows clinicians to view scans in seconds and improve patient outcomes.

Medical technology and Artificial Intelligence have been growth areas in healthcare given the cost-saving and efficiency potential it has. Illumina is a global leader in DNA sequencing who aim to improve human health by applying innovative technologies to the analysis of genetics. They recently announced, in partnership, that they will be conducting a whole-genome sequence of 35,000 samples, predominantly made up of DNA from African Americans. This is because they are currently underrepresented in research for clinical application of genomics, which is mainly drawn from people of European ancestry. This lack of diversity has created a gap in the scientific understanding of the underlying genetic cause of disease and inhibits equitable access to treatments.



Natural Capital UK Forestry

Direct natural capital is an area where portfolios have seen an increase in exposure following the IPO of the Foresight Sustainable Forestry Company at the end of 2021. The company invests in sustainably managed commercial forestry and afforestation assets. They aim to increase the supply of home-grown timber to reduce reliance on imports, which currently constitutes 80% of total demand. This is a limiting factor in the UK's ability to adopt more sustainable building and manufacturing practices.

The company supports a number of other United Nation's SDGs, including Climate Action, where their portfolio removes carbon from the air through sequestration. On top of this, a whole range of pollutants are removed from the air, such as Nitrous Oxide or Sulphur Dioxide, which in turns reduces air pollution and supports UN SDG 3 - Good Health and Wellbeing.

The company also has a purposeful approach to nurturing the natural habitat and species diversity to help build environmental resilience and begin restoring biodiversity. These efforts directly contribute towards UN SDG 15 – Life on Land where the underlying targets include the promotion of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.

The positive outcome this has can be measured in terms of hectarage of forests and hectarage of long-term, mixed broadleaf carbon sinks. However, they are engaging with leading environmental consultants in order to baseline the types and levels of biodiversity across their sites in order to allow future monitoring and assessment against biodiversity standards.

Foresight expects to plant 6.4 million trees throughout 2023 and 2024 and develop 3,917 acres of land, 16% of which will be dedicated to native broadleaves and rare and endangered trees.

9,618 HECTARES IN THE PORTFOLIO

CIRCA 514,000 TREES PLANTED IN 2022

CIRCA 860,000 HECTARES IN THE PIPELINE

Waste

According to the World Bank, waste generation is expected to increase by 73% from 2020 to 3.9 billion tonnes in 2050 due to urbanisation and an acceleration in the global population.

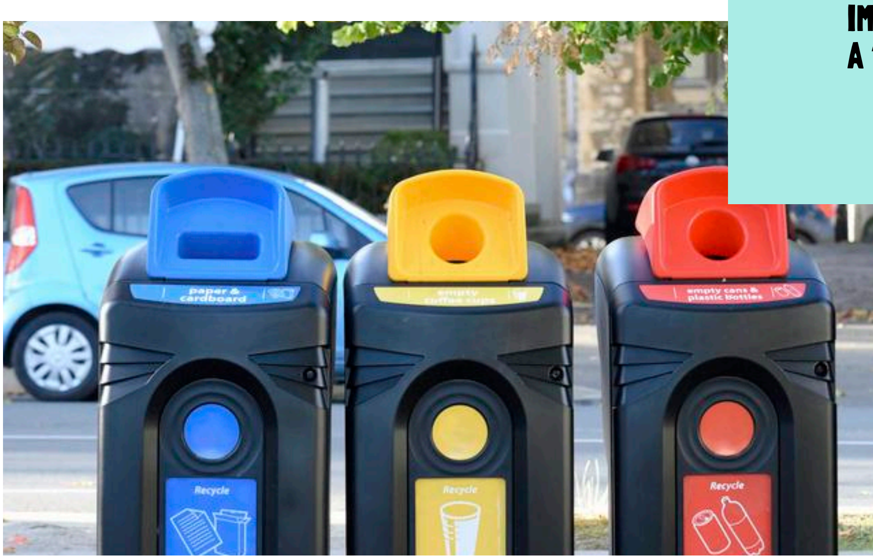
Ineffective disposal of household and commercial waste can have a detrimental impact on people's health and the environment. This includes issues such as a lack of collection facilities, but also detrimental impacts of open landfills, which can contaminate water, in turn having detrimental consequences for people's health and ability to sanitise.

Within portfolios, there are a number of companies supporting the transition to a circular economy, in turn helping to address a number of challenges, such as climate change and biodiversity loss. This includes companies in both the household and commercial waste sector, which supports the United Nation's Sustainable Development goals of 12 - Responsible Consumption and Production, and 11 - Sustainable Cities and Communities.

For a number of years, Befesa has reduced the environmental impact of the steel and aluminium industries by recovering valuable materials which can be re-introduced back into the production process for use in ceramics, cement or steel galvanisation. Through an acquisition in October last year, Befesa now owns the world's only refining facility which produces 'green' zinc from 100% recycled raw materials. Zinc and Aluminium are key materials in a number of transition products, from batteries to electric vehicles.

Norway's Tomra Systems is leading the resource revolution and has been a long time holding in model portfolios. In their own words, they deliver particular impact on the United Nations SDG 12 - Responsible Consumption and Production. This is measured in their ability to sustainably manage resources through recycling, reuse, and reducing food waste and loss. Their products include sorting solutions for metal and waste recycling, as well as innovative reverse vending machines, allowing consumers to return bottles and cans for recycling. They also provide valuable solutions for the mining industry, where their sensor-based sorting technology ensures maximum efficiency in separating valuable resources from waste. Late in 2022, they successfully trialed their laser system at a lithium mine in Australia, achieving a removal rate of 98% of contamination, ensuring great efficiency in extracting valuable, finite resources key to our energy revolution.

> **WHILST IT IS IMPORTANT TO NOTE THAT RECYCLING AND REUSING IS PIVOTAL, NOT CREATING WASTE IN THE FIRST PLACE IS JUST AS IMPORTANT AS WE SHIFT AWAY FROM A "TAKE-MAKE-WASTE" ECONOMY.**



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Information obtained in this publication has been taken from reliable sources. In most cases, the statistics and comments used are from the various publications from the mentioned companies, with the data being correct at the time of construction.

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