ESG investment commentary
January 2025

Key highlights this month

- December was a challenging month for global equity and bond markets, as significant pessimism emerged regarding the future direction of the US economy
- Performance was concentrated in a small number of 'megacap' technology stocks
- Sustainable risk models underperformed traditional benchmarks in December due to a lower exposure to the narrow group of stocks described above - more details on how we are thinking about this is included below.

The message that we get from our thematic managers is that they are finding opportunities away from the narrowly concentrated group of very big companies that are dominating market commentaries.

Portfolio performance

All sustainable strategies were behind traditional benchmarks during December due to a lower exposure to megacap technology stocks.

How we think about the Magnificent Seven

Market narrowness and accompanying acronyms are not new. In a relatively short period of time we have gone from FAANG (Facebook, Apple, Amazon, Google) to the Magnificent Seven (Nvidia, Microsoft, Apple, Amazon, Meta, Alphabet, Tesla) to the fab four (Nvidia, Meta, Tesla, Broadcom). The names are less important than the phenomenon of a relatively small group of companies driving a huge share of global market returns.

As thematic investors focused on the intersection between innovation and sustainable challenges, these companies are by no means off limits. We strongly believe the tech sector can have a positive impact on the environment or society through their products and services. We also think the companies in this space that are good at addressing sustainability risks that materially impact their business will have a competitive advantage.

To keep it relatively simple, we highlight the thematic funds we own that currently have exposure to some of these stocks:

Fund	Magnificent Seven exposure
Polar Capital Artificial Intelligence (AI)	Nvidia, Microsoft, Apple, Amazon, Meta, Alphabet, Tesla
Natixis Thematics AI and Robotics	Nvidia, Alphabet
Baillie Gifford Positive Change	Tesla, Microsoft
L&G Battery Value-Chain	Tesla
First Trust Nasdaq Cyber Security (ETF)	Broadcom

You'll notice that managers generally have some exposure, but in many other cases there is not enough thematic revenue exposure to justify a position. Therefore, while Apple may be big spenders on cyber security, they do not make cyber security products. Going beyond technology and thinking about a theme like health and wellbeing, Apple do make products that contribute to healthier lifestyles (e.g. smartwatches) but until it becomes the lions share of what they do, fund managers targeting themes like obesity will find more relevant companies to buy.

More broadly, the message that we get from our thematic managers is that they are finding opportunities away from the narrowly concentrated group of very big companies that are dominating market commentaries. If the AI theme is as profound as optimists forecast, their argument is that a much broader group of companies will benefit.

Changes

We made no changes in December.

Positioning

We have a neutral position in equities, fixed income and alternatives. Geographically, we continue to have over half of our equity exposure in the US and an overweight to developed Europe - particularly the Nordic economies.

Exposure to thematic investments increases across risk profiles in increments of 25% of the underlying equity. More detail on this below.

Outlook

We continue to have conviction that the general trend of a market rotation away from the Magnificent Seven remains intact, providing a better backdrop in some of the long-term thematic opportunities we target.

How we think about investing sustainably across risk profiles

We see the primary return opportunity in thematic investments. These are a way of targeting companies producing products or services that help solve or mitigate sustainability challenges. This is an attempt to identify companies where innovation can help solve a sustainability problem.

These opportunities are prevalent in three main areas:

1. Technological advancement

2. Health and wellbeing

3. Environmental protection.

They break down into a number of differentiated themes which are highlighted in the table below.

The thematic managers we use pursue sustainable outcomes by investing in companies that they believe can create transformational change. They tend to have a focus on disruptive innovation and business models are often newer. This tends to be a smaller universe of companies than broader markets.

The adjacent areas tend to be characterised by smaller companies with higher levels of volatility than broader markets. For this reason, exposure to thematic investments is reduced in lower risk profiles.

We consider sustainability more broadly in lower risk profiles. Managers focus on sustainability at an operational level and there is less of a thematic focus. There is more exposure to larger, well established businesses and more sector diversification. We believe this is appropriate to control risk and volatility. The different portfolio names are reflective of the approaches being taken.

This is detailed in the below table.

Risk Profile	Equity	Thematic % of portfolio	Thematic % of equity
Portfolio name: CGWM RP3 Sustainability Screened			
RP3	20.0%	5.0%	25%
Portfolio name: CGWM RP4 Sustainability Screened			
RP4	40.0%	10.0%	25%
Portfolio name: CGWM RP5 Sustainability Themes			
RP5	60.0%	30.0%	50%
Portfolio name: CGWM RP6 Sustainability Themes			
RP6	80.0%	60.0%	75%
Portfolio name: CGWM RP7 Sustainability Themes			
RP7	97.5%	97.5%	100%

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The investments discussed in this document may not be suitable for all investors. Past performance is not a reliable indicator of future performance.

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