Sustainable Investment Service (SIS) commentary

February 2025

Key highlights this month

- January was a positive month for global equity markets with significant optimism about the future direction of the US economy and its impact on markets
- Performance was less narrowly concentrated in a small number of ‘megacap’ technology stocks
- Sustainable risk models outperformed traditional benchmarks in January due to a lower exposure to the narrow group of stocks described above.

> ***The notion that we must choose between groundbreaking advancements and preserving our planet is a false dichotomy.***

Portfolio performance

All sustainable strategies were ahead of traditional benchmarks in January due to broader exposure to technology stocks.

Sustainability and innovation

ESG has become a political football in the US with many opinions on what these practices do or don’t do for shareholder value and wider society. Our portfolios are focused on sustainability problems that are presenting market opportunities for innovative businesses. We think this is more sensible than focusing on the ESG policies and marketing of some companies, where it is often difficult to tell fact from fiction. We thought it useful to make clear how our managers think about the sustainable investment opportunity.

Imagine a world where innovation and sustainability are not adversaries but partners. The notion that we must choose between groundbreaking advancements and preserving our planet is a false dichotomy. The most forward-thinking companies are those that seamlessly blend the two, recognising that sustainable practices can drive innovation and vice-versa.

Technology is a good example of this. By prioritising energy-efficient designs and renewable energy sources, companies not only reduce their carbon footprint but also uncover new avenues for technological advancement. This approach leads to the development of cutting-edge products that are both eco-friendly and market leading. Moreover, embracing sustainability opens doors to untapped markets and consumer segments that value environmental responsibility. It's not merely about compliance or corporate altruism; it's a strategic move that can enhance brand reputation, foster customer loyalty and, ultimately, boost profitability.

In essence, the fusion of innovation and sustainability is not just a noble endeavour but a practical strategy for long-term success. By viewing these elements as complementary rather than conflicting, businesses can position themselves at the forefront of their industries, leading the charge toward a more sustainable and prosperous future.

Changes

We added to the Fidelity Global Technology Fund and the First Trust NASDAQ Cyber Security ETF.

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. More detail on this below.

> ***Embracing sustainability opens doors to untapped markets and consumer segments that value environmental responsibility.***

Outlook

We continue to have conviction that the general trend of a market rotation away from the 'magnificent seven' (Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta, and Tesla) 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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Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested. Our portfolios are designed to work over a typical investment cycle of 7-10 years, so we recommend you stay invested for at least seven years.

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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