

# ESG investment commentary July 2024



## Key highlights this month

- June was a positive month for global equity markets with the MSCI World index on the rise following another incredible month from technology company NVIDIA and the rest of the 'magnificent seven' US technology giants (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, and Tesla). This positivity was despite continued news around inflation and interest rates staying 'higher for longer'
- ESG risk models all performed positively, with tech-oriented themes standing out. The models generally underperformed broader non-ESG benchmarks due to an underweight in the magnificent seven.

*From an investment perspective, we envision a world in which companies improving their emissions profile relative to their peers attract a valuation premium.*

## Portfolio performance

All ESG models delivered a positive performance during June.

## Transition

Companies offering products or services that solve or mitigate sustainability challenges are the focus of these portfolios, but we're also attracted to investing in companies that are transitioning to a more sustainable business model. This is for two reasons. Firstly, around 90% of greenhouse gas emissions come from about 30% of companies in developed markets, and this is heavily skewed to sectors like utilities, industrials, and energy. Ignoring the hard-to-decarbonise sectors of the economy is not a viable strategy: these companies don't cease to exist because you don't own shares. Ultimately, companies improving their emissions profile has a meaningful impact on achieving environmental goals. Secondly, from an investment perspective, we envision a world in which companies improving their emissions profile relative to their peers attract a valuation premium.

Companies can and do change. John Deere (Deere & Co), which manufactures agricultural machinery and vehicles such as tractors, is a good example. This company has been around for over 180 years and has adapted its technology with innovations like 'See and Spray', which helps farmers reduce their fertiliser footprint while improving crop yields. We have recently added to two strategies with a focus on 'improvers', as we see this as a useful way to make a real-world impact from the portfolio, while providing some exposure to companies that tend to lack representation in mainstream sustainable strategies.

## Changes

We continued our focus on adding to our highest conviction managers and reducing overall portfolio costs. We allocated to a new manager with a global focus on stewardship. Wellington Global Stewards is a fund that has outperformed broader markets over the past five years with a distinctive approach to sector leaders transitioning in the environmental space. We also added exposure to the BlackRock Global Funds (GBF) Brown to Green Materials fund which focuses on the 'picks and shovels' companies which provide the essentials needed for the electrification of the grid, such as batteries, metals, and other tools and materials.

## 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. We have some exposure to emerging markets, with a focus on India and Latin America. We currently have an overweight in small and mid-caps over large-caps.

## Outlook

We continue to have conviction that despite June being a month focused mainly on the large US technology companies, the general trend of broadening markets remains intact and the relative attraction of small and mid-caps will provide a better backdrop in some of the themes we own.



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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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