

ESG investment commentary October 2024



Key highlights this month

- September was marked by volatility in global equity markets, with stocks reacting sharply to news surrounding China's planned enormous economic stimulus. In contrast, bond markets proved more resilient during fluctuations in the markets
- ESG risk models all performed relatively well, as environmental themes offset weaknesses in the technology and healthcare sectors. Models generally performed in line with non-ESG benchmarks, with lower-risk strategies outperforming due to greater exposure to fixed income and alternatives.

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Portfolio performance

All ESG strategies were in line with their benchmarks during the month of September.

Consumer trends and sustainability

Although environmental strategies dominate the conversation on sustainable investing, we see a significant investment opportunity in companies focused on social progress. Social sustainability challenges centre on providing essential products and services, such as food and housing, expanding economic participation through access to education and finance, and enhancing quality of life through improved health and well-being.

Growth in these areas is supported by long-term structural trends, including rising wealth in emerging markets, an increase in chronic diseases, and the impact of transformative technologies like automation and artificial intelligence (AI) on society. This translates into a portfolio that invests in consumer-focused companies engaged in themes like digital payments, e-commerce, digital platforms, AI, luxury goods, consumer health, and personal care. This approach offers a distinctly different exposure compared to environmentally-oriented strategies.

We have recently added the Impax Global Social Leaders fund, which targets companies exposed with the themes above. The fund also focuses on corporate culture, as the fund managers believe that workplace atmosphere and employee interaction is crucial in determining long-term shareholder value. In their view, how a company is run can strongly influence innovation, customer satisfaction and business success. Furthermore, they note that culture is often overlooked by investors due to it being difficult to measure, leading to potential mispricing in the market. The fund features an attractive founder fee class (a benefit for early investors) with an annual management charge of 0.25%.

Changes

We made no changes in September, but we will integrate the Impax Global Social Leaders fund in October.

Positioning

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

Outlook

We still believe that despite September being a volatile month, the general trend of falling interest rates and market broadening away from the 'magnificent seven' (the mega-cap tech stocks Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) remains intact, providing a better backdrop in some of the sustainability themes we target.

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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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