ESG investment commentary
December 2024

Key highlights this month

- November was a strong month for global equity and bond markets driven by optimism surrounding the outcome and impact of the US election
- ESG risk models were strong in absolute and relative terms, with strong performance in technology themes driving returns
- Our models outperformed non-ESG peer groups, with higher-risk strategies delivering better relative performance due to increased equity exposure.

The fund we invest in - Natixis Robotics - maintains a clear exclusion policy, avoiding companies who use robots for environmentally harmful activities.

Portfolio performance

All ESG strategies were ahead of peer groups in November.

Robotics and sustainability

The robotics sector naturally aligns with sustainable investing. A prime example is precision agriculture, in which companies are using robots to address issues like food scarcity and reducing excessive fertiliser use. There's a similar emerging trend in medicine: surgical robots are playing an increasingly vital role in high-risk procedures. The fund we invest in - Natixis Robotics - maintains a clear exclusion policy, avoiding companies who use robots for environmentally harmful activities.

This theme has a mid-cap focus, with significant exposure to the industrial sector and a geographical tilt towards Japan. It has faced challenges in an environment of rising borrowing costs and inflation, particularly compared to mega-cap technology. However, November saw a noticeable rebound. Given the relatively early adoption of robotics in industries facing chronic worker shortages - such as manufacturing, healthcare, and food - we believe this theme is well-positioned for long-term investors.

Changes

We integrated both the Impax Social Leaders and Polar Capital Artificial Intelligence funds into portfolios in November. This will provide differentiated sectoral and market cap exposure to our environmental funds which tend to have a midcap and cyclical bias.

We reduced our exposure to clean energy. While we like the long-term prospects of the theme we think a smaller position size is warranted given the elevated political risks in the US following the election.

We will be moving our cyber security exposure from the Rize Cyber Security ETF to the First Trust Cyber Security ETF. We prefer the latter's exposure to bigger and more profitable companies and have some concerns around Rize following its acquisition by ARK.

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.

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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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