

EVERYTHING ETHICAL

MONTHLY NEWSLETTER

- BESPOKE

Everything Ethical Newsletter – September 2024

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Market Commentary

The Federal Reserve (Fed) finally embarked on their rate cutting cycle with a giant 0.50% cut. Although, the post meeting press conference highlighted the economy is still in good health and it was not panic stations just yet. The move signalled the Fed were willing to move big to avoid getting behind the curve, and sets them up for incremental, data dependent cuts, with markets now pricing US interest rates at circa 3% by the end of 2026.

Weak EU and somewhat weak US CPI figures at the end of the month re-affirmed the rate cut narrative, and very short duration assets (interest rate proxies) ended the month in a flourish. However, it is worth noting that the front end of the UK has underperformed with the market actually taking out some expectations for rate easing this year. The narrative in the UK hasn't been helped this month by strong retail sales and services PMI, and more recently, house price figures. This comes on top of some hawkish rhetoric out of the Bank of England and growing concerns that Labour might be looking to inject more money into the economy.

It has been reported that UK businesses are putting off any investments until after the budget, with uncertainty high over next month's potential block buster announcement from the Chancellor Rachel Reeves. Her speech at the Labour Party Conference was filled with lots of rousing rhetoric but few hard facts beyond those that we already knew (no increases in corporation or income taxes etc). Many in the markets and the press remain sceptical of her ability to kickstart the UK economy and/or reduce the government deficit.

As the Chinese economy continued to falter, authorities pushed ahead with a range of policy support measures, including a reduction in the amount banks needed to hold in reserve and a cut in their key policy rate. Asian equities, and those exposed to China, were buoyed following this announcement, with Chinese equities entering a bull market. Exposure to Chinese listed equities is limited, however several names in the portfolios are economically exposed to the region.

The Chinese stimulus inevitably led to a gain in industrial metals and the price of oil, with hopes the economy will begin to pick up, although news that one major oil supplier would roll back on production cuts has led to weakness in the energy sector.

Equities started the month on the back foot but were buoyed by the Fed rate cut and the general easing narrative, something our equity universe so desperately needed after facing headwinds over the last couple of years, with the cost of capital a particular issue. Small and mid-cap companies outperformed larger-cap peers as the equity rally broadened. Some clean energy names also performed strongly as a result of this, portfolio holding First Solar, for example, was up 7.39% in the month in sterling terms. After what has been a volatile summer,

we have been looking to increase portfolio equity exposure as the market continues to broaden.

The portfolio's property exposure was a notable strong performer in the month. PRS REIT was up 8.46% in the month as there was news around its board composition and a desire to maximise shareholder value. Target Healthcare was close behind, up 7.91% in the month after a strong set of results, whilst Primary Health Properties was up 5.43%. Investment trusts have struggled in a higher rate environment as we have commented on at length, but we anticipated that fortunes would turnaround as conditions started to ease but we still see further room for recovery.

Transactions in the month

Purchase of Bloomsbury Publishing – Bloomsbury has been a stock we have monitored for some time following a meeting with management earlier in the year where we were impressed. We have held in select cases since May, where negative screens prevent exposure to some of our other UK based holdings. Performance has been strong since then, but we saw an opportunity in September to widen our exposure as part of our strategy to increase equity exposure at the lower-end of the market cap. It also increases portfolios exposure to the education theme, which is one where investment opportunities have been limited. Please see a stock profile below:

Bloomsbury Publishing is a leading independent British publishing house operating from the UK to Australia, USA, Canada and India. It publishes academic, educational, and general fiction and non-fiction books for children, teachers, students, researchers, and professionals worldwide. Established in 1986, Bloomsbury boasts authors who have won the Nobel, Pulitzer and Booker Prizes, and is the originating publisher and custodian of the Harry Potter series. Within Bloomsbury's Academic division, it publishes under Bloomsbury, as well as under a number of prestigious and historic imprint names, specialising in the arts, humanities and social sciences, law, business and management, and study skills.

Purchase of Impax Asset Management – Impax Asset Management are a solely sustainable asset manager, with products such as Impax Environmental Markets held in many portfolios. July's results were disappointing and the price has continued to fall since then. But we see their predicament as similar to ours, and the outlook for positive-focused investing is improving once more. We therefore took the decision to initiate investment into the company, and also formed part of our strategy to increase equity and risk exposure. Please see a stock profile below:

Impax Asset Management are one of the largest investment managers dedicated to investment in the transition to a more sustainable global economy, with their investment philosophy revolving around investing in companies and assets that are well positioned to benefit from the transition. They do this through a number of products, spanning multiple asset classes, such as Impax Environmental Markets. They believe that capital markets will be shaped profoundly by global sustainability challenges, particularly climate change, pollution, natural resource constraints, and demographic issues such as diversity, inclusion and gender equity.

Purchase of Fugro – Climate change adaptation is becoming an ever more important theme as the effects of climate change become increasingly prevalent. Fugro is a company operating in energy transition, sustainable infrastructure and climate change adaptation through the provision of geological data services for infrastructure projects. We have been monitoring the company for some time, and after a string of positive earnings reports and as part of our

strategy to increase equity and risk exposure, we initiated investment. Please see a stock profile below:

Fugro are a geo-data specialist. Geo-data is information related to the Earth's surface, subsurface and built environment. Much of the risks associated with major infrastructure projects actually lie below ground, therefore accurate collection and interpretation of this data is essential for sustainable assets. Fugro provide this service through integrated data acquisition, analysis and advice which supports their clients in mitigating risks during design, construction and operation of their assets both on land and at sea. Their solutions support the energy transition, sustainable infrastructure and climate change adaptation.

Completion of AstraZeneca to GSK switch (where ethics allow) – In July we began to reduce portfolio exposure of Astra in favour of GSK as we saw greater upside given the strong performance of AstraZeneca since we initially added. We decided to complete in September following analyst downgrades on AstraZeneca which put pressure on its share price.

Trim of Enphase Energy – Enphase continues to be a volatile stock in portfolios, given its share price performance is sensitive to interest rate expectations. As a result of this, it has had a positive quarter, rising 6.9% in sterling terms. We took this opportunity to reduce portfolio exposure to the company, which we now consider as a higher risk stock than when we first invested, as a result of its volatility.

Company Meetings & Engagements

Last month we met with the investment trust research analysts at Investec for an update on the asset class. It is an asset class where we have become more positive on in the last few months so it was good to catch up and test our thesis on it.


We attended a site visit hosted by Agronomics at the labs of Meatly. Agronomics, not currently held in portfolios, are a listed investment company investing in cellular agriculture companies. Meatly are a cultivated meat producer, held within the Agronomics portfolio, and they were the first to receive regulatory approval for the production of cultivated meat in Europe. They have achieved a rapid path to commercialisation by focusing on the pet food market. Cultivated meat is a very new technology, but one that has the potential for significant environmental and security benefits in the agriculture industry. We wanted to gain a better understanding of how it worked, and the investment opportunity in it. We'll provide an update on this site visit in the coming weeks.

We met with the investment team at Impax where we discussed the Environmental Markets Trust. Part of what was discussed was the discount that the trust continues to trade at, and what they plan to do to address this.

We met with two high-risk AIM companies in MP Evans and Craneware to discuss their recent results. These companies are held in selective high-risk portfolios.

Ethical News

A total of nine offshore wind farm contracts have been awarded by the UK government after last year's auction failed to attract any bidders at all. The contracts are part of a wider slate of green energy projects that also include tidal and solar power, and will provide enough electricity to fuel the equivalent of 11 million UK homes, the government said. Keith Anderson, chief executive of Scottish Power, said offshore wind was "back on track after last year's misstep". "It will allow investment into manufacturing in the UK. It allows the sector to get back up and running and it puts the government back on track for hitting targets, really important targets to decarbonise the sector,"



Sticking with the UK - The Department of Energy Security and Net Zero's (DESNZ) quarterly Energy Trends report **confirmed renewables electricity generation increased 19 per cent year-on-year during the second quarter**, marking the third consecutive quarter where renewables generation met over 50 per cent of power demand across the UK.

The UK Infrastructure Bank (UKIB) announced an investment in subsea high voltage cable manufacturer XLCC to develop a new world-leading factory in Hunterston in Scotland. Subsea HVDC cables built at Hunterston will be capable of transporting energy over long distances with significantly increased efficiency. As such, they will play a fundamental role in the upgrade of the grid required for the energy transition. This will enable the connection of renewables at scale and allow the clean energy produced by wind farms in the North Sea to be transported to homes and businesses around the country – strengthening our energy security as well as supporting decarbonisation. The funding consists of an initial £20m from the UKIB with an option to invest a further £67m upon XLCC achieving specific development and funding milestones.

The UK's first new deep coalmine in 30 years will not be allowed to go ahead after a ruling in the high court. The plans to build the facility in Whitehaven, Cumbria would not proceed, in what campaigners called “a victory for the environment”. The judgment found the climate impact of burning coal, oil and gas must be taken into account whether to approve projects. Following on from this, after 142 years, the UK has now stopped producing electricity from burning coal, marking the first major developed economy to do so.

Schneider Electric, the leader in the digital transformation of energy management and automation, is investing £42 million in a new manufacturing facility in Scarborough, North Yorkshire. More than 200 jobs will be created to meet the increased demand for electrical equipment to drive the UK's move to cleaner energy including renewable energy sources, electric vehicles, and intelligent, energy-efficient buildings. The site, which is almost triple the size of Schneider Electric's existing Scarborough facility, is a blueprint for sustainable design and operations in the manufacturing industry. It is poised to become a net-zero plant and will use modern technology to reduce energy waste and maximise the use of renewable energy. It is expected to be net-zero in Scope 1 and 2 emissions when it opens in early 2025.

Record rainfall leading to flooding that killed 24 people in Europe in September was twice as likely due to manmade climate change, a study has found. The flooding took place across central Europe after Storm Boris stalled over the region between 12th & 16th September, inundating Poland, Romania, Slovakia, Austria, Czech Republic & Germany with the heaviest rainfall ever recorded in some areas and affecting almost two million people. “Our study has found the fingerprints of climate change in the blasts of rainfall that flooded central Europe,” said Joyce Kimutai, a researcher at Imperial College London and one of the contributors to the report by World Weather Attribution. “Yet again, these floods highlight the devastating results of fossil fuel-driven warming”.

The Butterfly Conservation charity has declared a national “butterfly emergency” after its annual Big Butterfly Count recorded its lowest ever number. The count has been running for 14 years, and although this year's poor results are partly down to the wet weather, the long-term trend is hugely concerning says the charity. Wider data from the UK Butterfly Monitoring Scheme, one of the longest running insect monitoring schemes in the world – shows yearly fluctuations in butterfly numbers in response to weather conditions amid a long-term picture of decline driven by climate change, habitat loss, pollution and pesticides. Dr Marc Botham of the UK Centre for Ecology and Hydrology said 33% of species had shown a significant decline in their abundance on monitored sites in the UK over the past 48 years. “It's quite simple really – there's not enough habitat and what is there isn't good quality,” he said.

In a separate news article Friends of the Earth states that pollution of all types (water, air, noise and light) threatens nature in a quarter of England's neighbourhoods.

Winners & Losers

Winning this month are the population of one-horned rhinoceros located in Assam, India. From approximately 600 in the 1960s, the latest data from the state shows that the number has increased to over 3,000, thanks to initiatives including expanding the rhino's habitat, and efforts to reduce poaching, which has dropped 86% since 2016.

Losing this month is ExxonMobil who are being sued by the state of California for decades of misleading consumers in trying to convince them that recycling was a viable solution for plastic waste despite knowing that 95% of plastics going into bins were incinerated, go into landfill, or wind up in the environment. The law suit also targets Exxon for violating state regulations over water pollution.

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