

Impact and ethical investments in the crisis 3 months on – Friday 29th May 2020.

We have produced a more general market commentary that will compliment this report.

About 3 months ago, a virus in China suddenly turned the world on its head and the crisis has not just changed lifestyles for much of the world, but also manifested itself with severe gyrations in global capital markets.

One standout has been the better performance of ethical, ESG and impact investments over this period (calendar year 2020) and this builds upon continued outperformance over the last 5 years, including in other periods of market stress. Both our bespoke and model portfolios have had a strong positive and impact focus. As portfolio managers we have always regarded both the ethical and investment criteria as equally important. Also our decisions have never been based on quantitative ESG data alone, we have always added a qualitative screen as well, i.e. is this investment in a company that is a genuine positive for the environment or society.

In addition to rigorous ethical investment process we also place a great deal of value on our focus and independence. We only do one thing, ethical portfolio management, and we do it with a genuine passion. It is who we are as well as what we do, and our own investments are aligned with our strong ethical values and our clients. We are truly independent and avoid conflicts of interest, being focussed on managing money we are not involved of investment advice or stockbroking. This means we do not place client's money into our own managed funds claiming they are the best solutions, and neither are we investing in companies who are corporate clients of the group. All investments are based purely on their investment and impact merit.

The recent crisis has accelerated a number of global mega trends that in our view align to many of the impact areas we focus on, and we therefore see an increased focus due to the positive ethical **and** financial outcome.

Renewable Energy

Energy is major area of the global economy and equity markets. In most unscreened funds these investments are dominated by fossil fuels, whereas our focus has been renewable energy. The oil market was already in a precarious situation and this crisis has hit oil and gas very hard, with shares in the sector performing much worse than the market. Renewable energy has on the whole performed well. In the crisis we added to this area by adding **Orsted** back into portfolios. As a leading developer of offshore wind farms, something that still has global growth possibilities but also within mature European markets. Later on we sold **Siemens Gamesa** and added to the **Vestas Wind Systems** holdings as we feel their outlook is better. We continue to remain un-invested in fossil fuels, feeling this crisis has hastened their demise.

Food

We added **Beyond Meat** to portfolios last year and again at the start of 2020. The crisis gave us another opportunity to top up (we do need up to date W8BEN forms for this investment). Whilst we understand investor views differ on meat and animal products and we are able to accommodate this, we see this as a good investment regardless of the ethical considerations. The demand for protein is rising rapidly and more credible meat free burger and sausages will play a key role in meeting this need, whilst reducing the carbon footprint that would be required

to meet this demand. A little later on we trimmed the holding where we could as it had doubled in price since we added it.

There are other investments in this area such as Christian Hansen, Leroy Seafood and Cranswick, with their inclusions based on the ethical views of bespoke clients.

Mobility

We used the market weakness to add **Tesla** back to portfolios, and investment we had held before where it was permitted (and W8 BEN forms were in place). The trend towards electric vehicles is now accelerating at a rapid pace and we do not buy the argument that cheaper petrol and diesel prices following the crisis will dent this. The economic and environmental arguments have been long won, and even over hybrids, and the main issue was infrastructure, which we see as now expanded to the point that secures the case for EVs.

Public transport suffered severely in the crisis and equity investments in this area where amongst the hardest hit in the portfolios. There has been UK government support for the sector as it is an essential service, but two of the three public transport providers are global and support varies. At the start of the crisis we added a Swiss based train and tram manufacturer, **Stadler** to portfolios, using weaker markets as an entry point. Public transport is an urban necessity and although we see significant changes to commuting behaviour in the future and home working increases, we also see the crisis not reducing the trend to urbanisation or the need to reduce congestion in cities.

Other Areas

We continue to seek investments that are solutions to problems rather than best of class, so in property we are not invested in commercial real estate, but rather into social housing, affordable & quality rental properties, and medical property.

In finance we have seen microfinance suffer as a result of the lockdown in poorer countries, with the weakening in the local currencies further exacerbating the situation. Here we feel the recovery may take longer than other areas, but is a sector we remain committed to.

Our focus remains ensuring that the portfolio meets both investment expectations and have the ethical impact investors seek. Above are just 4 recent examples of how we feel portfolios are exposed to the accelerating mega trends that underlie our investments. The current coronavirus pandemic has reinforced our ethical investment convictions rather than diminished them.

We can provide some more detail on the ethical profile of our investments, please email ethical@kasl.co.uk if you would like the document emailed.

Being who we are

The crisis has had a deep impact on how people do business. All of the asset management team continue to work from home and for us its business as usual. The whole team are available to help and any portfolio enquiries, requests for valuations, documents, payments during our normal working hours of 7am to 5pm and are best contacted via email on ethical.support@kasl.co.uk. Whilst our phone lines are diverted these emails go to the whole investment team and the best person can then answer. More specific investment and fund management issues the best email is ethical@kasl.co.uk.

We are aware that business has been able to carry on for many people. As a firm we took a decision that the few staff, who could not work from home and that we had to furlough, were done so on full pay and the company's expense, we have not made use the government's Job Retention scheme.

Also many front line workers have responded to the crisis in a way that was much more than just professional, something that we find humbling. King and Shaxson felt the need to respond to the need for PPE in our own small way. As a project we therefore funded, helped develop and delivered several hundred high quality face visors to two UK hospitals. We have been delighted by the response we had and we are pleased we have more interest from another UK hospital.

We hope that the country is able to move forward from this crisis in a more positive way and will continue to provide the level of service our clients and counterparties expect.

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