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EVERYTHING ETHICAL MONTHLY NEWSLETTER – ETHICAL MPS

Everything Ethical Newsletter – May 2025

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Market Commentary

Global equity markets continued their end-of-April rally into May, with a leading developed market index returning +4.91% in sterling terms. However, much of the attention has once again focused on government deficits, particularly the ballooning US deficit. This follows the progression of Trump's 'big, beautiful' tax and spending bill, which is set to add trillions to the US deficit due to tax breaks and increased defence spending.

This development brought out the bond bears in full force, with a weak 20-year bond auction in the US causing some equity market volatility in the second half of the month. The $16 billion issue of 20-year bonds by the US Treasury on 21/05 was awarded at 5.047%, well above the average of the past six auctions of 4.613%.

Longer term debt has borne the brunt of the selling and adds further pressure to government deficits as debt repayments are already spiralling. This has caused Moody's to strip the US government of its top credit rating. While Trump and Treasury Secretary Bessent have been quick to downplay the move, it certainly adds fuel to the fire. As we have previously mentioned, this is the reason we prefer to stay in the shorter area of the curve, with portfolios overall duration around the 4-5yr level. A leading green bond index returned +0.24% for the month which was an outperformance of UK sterling corporate index of -0.08% return, and an outperformance of a leading medium gilt index at -1.30%.

After a weak start to the year, there was a strong rebound in the climate and environment focussed universe, with RobecoSAM Smart Energy returning +9.19% for the month. There was initially some relief for clean energy names given the hope that the clean energy provisions would not be watered down as much in upcoming legislation. However, as part of the "One Big Beautiful Bill Act", we saw significant amendments to these provisions brought in through the Inflation Reduction Act in 2022. There are changes to a range of credits that predominantly cut their timeline much shorter, including clean hydrogen project credits, home improvement credits, and clean vehicle credits. There are also restrictions on projects that have certain foreign entities or foreign components involved. The two key amendments include a shorter phase out of credits for renewable projects and removing third party-owned models from qualification for credits, which impacts a large part of the US residential solar market. There is some hope that as the bill passes through the senate, we may see some more positive revisions to the bill.

As with everything in the global economy, uncertainty is a major hurdle, so whilst the clean energy legislation sours sentiment, it will eventually lead to reduced policy uncertainty – an essential step for sector progress. As we have seen over the last few years, there is still demand from corporate America for clean energy, particularly when you look at the growth of US data centres. Whilst the basket of clean energy stocks looks cheap, there are areas that are under pressure, such as US residential solar, while other segments remain attractive. There will, however, be an element of patience required as the political landscape calms.

Portfolios alternatives exposure returned a more modest +1.07% for the month, but it continues to provide that diversification we have sought from the asset class, with year-to-date returns for RM alternative income fund being +6.74%.

Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

Performance:

Funds MPS	May 2025
Defensive	0.78%
Cautious	1.54%
Balanced	2.04%
Balanced Growth	2.57%
Growth	3.15%
Adventurous	3.82%

MPS Stock pick feature

Underlying portfolio holding **INPP** commented in their 2024 annual report that during the year, Tideway completed the major construction works on the new 25km 'super sewer' under the River Thames and in September 2024, the tunnel started to prevent sewage from entering the River Thames. Post year-end, Tideway announced that the new super sewer is now fully connected bringing the entire system online to protect the tidal Thames from sewage pollution, promising a greener, healthier River Thames. Data shows that from September 2024 until the time of writing; the system has prevented six million cubic metres of sewage from entering the river. This demonstrates the scale of the benefits resulting from the project as well as the key role that private capital can play in helping to deliver the UK's much-needed new public infrastructure.

Fund House Meetings

During May we met Guinness Asset Management, M&G & Robeco.

Ethical News

England & Wales have **recorded their driest start to the year in decades.** River levels are well below their historical average and reservoirs depleted, fuelling fears of a summer drought. The Environment Agency believe that the changing climate will result in more summer droughts in the decades to come, which will require a more efficient use of water. This is a global problem, the American Midwest for example, which is a vital agricultural area, has been suffering from long-term precipitation deficits. Portfolio company Lindsay provides irrigation and water management technology that helps conserve resources whilst increasing yields, with their FieldNET system having saved over 550 billion gallons of water.

Scotland is set to become the first UK nation to **criminalise ecocide, which is the severe and reckless harm to nature.** The bill would make it a criminal offence to cause widespread, long-term or irreversible environmental damage, with potential penalties including up to 20 years in prison for individuals and unlimited fines for companies. This move would position Scotland at the forefront of the growing international effort to use criminal law to deter environmental destruction. The legal system is increasingly being utilised around the world to make claims against those who damage the environment, which is driving regulatory reform and changes to corporate strategies. There has been well over 2,000 lawsuits to date that are related to climate change.

The UK's National Wealth Fund has announced a £600 million loan to Spanish energy giant Iberdrola to **upgrade the British power grid.** The money will go towards two major subsea transmission cables between Scotland and England. The lines are needed to connect wind farms in remote parts of Scotland with areas of high electricity demand. Currently, some wind farms are told to curb their output, or incentivised to stop generating electricity, because the energy cannot be transported to where it is needed. It is estimated that in total 1,000km of onshore cables, and 4,500km of offshore cables will be required by 2030 to meet the government's transition plans. **Portfolio company Prysmian** are a leading provider of subsea transmission cables, to connect offshore wind farms to energy grids.

The **latest global climate predictions** have shown temperatures are expected to remain at or near records for the next five years, likely exceeding the 1.5 degrees above pre-industrial levels. Global average temperatures exceeded the threshold for the first time on record in 2024, partly due to the El Niño cycle in the tropical Pacific. The update is issued annually by the World Meteorological Organization (WMO) and is produced by the UK's Met Office. The report shows no signs of relief from rising temperatures over the coming years, which comes off the back of ten of the warmest years on record. The harmful effects of global warming are already being felt, from extreme weather events such as droughts or rainfall, to melting ice and heating oceans, all of which impacts liveability, food security, physical assets and natural capital. This creates both physical and transition risk that we need to consider when constructing investment portfolios.

instruments may be used from time to time for the purpose of efficient portfolio management. ESG and Impact investing, will by its very nature, have no or very limited exposure to some key sectors of stock markets and a higher exposure to a number of positive themes. It is therefore important to understand that both performance and the risks associated can differ versus a portfolio that does not include ethical exclusions. As the portfolios are housed on number of platforms there will be some variances in cost and performance depending on the platforms ability to hold certain share classes and their policy on execution, and the data is to provide a guide but each platform will vary.