

# ESG investment commentary May 2024



## Key highlights this month

- April was a negative month for global equity markets with the MSCI World index falling 2.8%. News around inflation and interest rates staying 'higher for longer' seems to have spooked investors
- This narrative had caused thematic ESG portfolios to underperform global markets in recent years, but this was not the case in April
- ESG risk models performed in line with their benchmarks, with environmental themes performing particularly well. Clean energy generation, electric vehicles and batteries, and water and waste management were all very strong, outperforming global equities.

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## Portfolio performance

All ESG strategies performed in line with their benchmarks during April.

## Artificial Intelligence (AI) and the energy transition

Clean energy had a very good month: funds such as Ninety One Global Environment, Guinness Sustainable Energy and the L&G Battery Value Chain have been outperforming the MSCI World index for several months now. Demand is starting to stabilise; inventories are clearing in electric vehicle charging, and residential solar companies are more positive on demand throughout the year. Sectors focused on renewable generators are also seeing better news, with improving demand, and more resilient supply chains.

We also think the AI revolution is going to be beneficial for energy transition themes: AI growth means higher electricity demand. Data centres are growing so will need significant energy provision from renewables. Meeting this requirement will make renewable energy sources like wind and solar, critical. So far, the market has been focused on the obvious beneficiaries of AI like chip makers and data centres, but we think the energy transition is a good way to also think about the second-order effects of this shift.

## Changes

We added further exposure to three of our highest conviction active managers, Baillie Gifford Responsible Global Equity Income, Baillie Gifford Positive Change, and the Regnan Sustainable Water and Waste fund. This is part of a further shift in these portfolios to more concentrated position sizes in our key allocations and reducing our underlying costs.

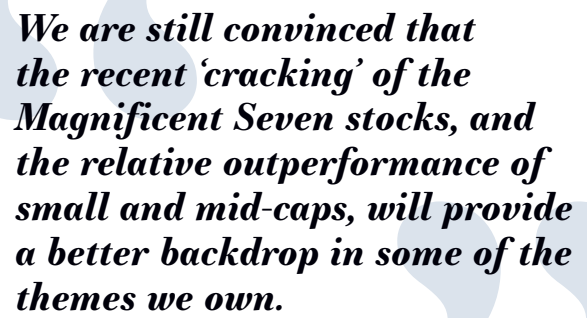
## Positioning

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 to developed parts of Europe - particularly the Nordic economies. We have some exposure to emerging markets, with a focus on India and Latin America. We currently have an overweight in small and mid-caps over large caps.

## Outlook

We are still convinced that the recent 'cracking' of the Magnificent Seven stocks, and the relative outperformance of small and mid-caps, will provide a better backdrop in some of the themes we own. This was further evident in April.

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# Discover our can-do approach

To find out more about how we go above and beyond to understand your investment needs and aspirations – and empower you to achieve them – get in touch. We'll be delighted to answer your questions and provide details of our services.

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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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