ESG investment commentary
April 2024

Key highlights this month

- March was a generally strong month for global equity markets, albeit one where more 'value-led' sectors like energy and banks excelled
- ESG risk models had a good month, with environmental themes performing particularly well. Clean energy generation, electric vehicles and batteries, and water and waste management were all particularly strong.

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Portfolio performance

All ESG strategies saw a strong performance during the month of March.

Electric dreams

History is littered with examples of new technologies being met with initial scepticism and at times outright hostility. There were campaigns against the introduction of oil, street lighting, cars and phones. It might seem strange to think about it today, but the arguments against replacing whale blubber with oil or horses with cars were fiercely voiced. Electric vehicles (EV) are going through such a moment today, with a general deceleration in sales growth being accompanied by negative press headlines.

It's worth looking beneath the headlines here. Globally, 14.5% of new car sales are EVs, according to Bloomberg Green[1] – even after a tough few years of rising input costs, rising rates and supply chain issues that have impacted the whole car industry. But this headline figure obscures a key fact – once countries reach the crucial tipping point of 5%, they tend to see a rapid increase in the EV percentage of new car sales. For example, Iceland, the world's second biggest adopter of EVs by market share, reached this 5% tipping point in only 2019 – which then grew rapidly to over 50% by 2023.

More locally, we also see many sceptical headlines in the UK around EV uptake. Despite this cynicism, however, the UK currently sits at around 18% market share – well above both the inflection point and the global average.

[1] Bloomberg Green https://www.bloomberg.com/news/articles/2024-03-28/electric-cars-pass-adoption-tipping-point-in-31-countries

As this increase continues globally, we continue to recognise the importance of the structural drivers behind the shift to EVs. Ultimately, battery costs have continued to decline, while range has improved. This is making it a more accessible option for new car purchases. We are still not there yet, and we need more charging infrastructure and cheaper vehicles, but this shift is happening.

Our chosen fund in this space provides us with exposure to car companies leading the transition from internal combustion driven vehicles, and the battery companies innovating around the technology needed to get us there. After a weak year, we saw some encouraging performance in March.

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Changes

We added exposure to three of our highest conviction active managers, Baillie Gifford Responsible Global Equity Income Fund, Baillie Gifford Positive Change Fund and the Regnan Sustainable Water and Waste Fund. This is part of a decisive shift in these portfolios to more concentrated position sizes in our key allocations – focusing on a smaller number of managers where we have higher conviction. This shift is driven not only by performance, but also the potential for a reduction in both risks and 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 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 continue to have conviction that the broadening out of investor sentiment from a relatively narrow group of mega-cap stocks towards small and mid caps could provide the impetus for a more sustained rally in some of the themes we own. We saw further signs of this in March.

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Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested. Our portfolios are designed to work over a typical investment cycle of 7-10 years, so we recommend you stay invested for at least seven years.

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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