Grayside's Responsible Investing Newsletter

January 2021

Welcome to our six-monthly newsletter

This edition includes:

- Update on our SRI Portfolios
- News
- Spotlight on Stocks – Case studies on what's under the bonnet of funds in our portfolios

Our SRI newsletter is edited by Richard Essex, one of Grayside's financial advisers and an Ethical investment specialist. He is also a member of the Ethical Investment Association, and the UK Sustainable Finance Association.

The value of investments can fall as well as rise. What you get back is not guaranteed. Past performance is no guarantee of future returns.

Update on SRI Portfolios

Our SRI portfolios, together with the EQ funds (our alternative proposition) have continued to perform well as we start to emerge out of the global pandemic. In addition, they are well positioned to benefit from the revitalised stimulus aimed at a low carbon economy from Governments around the globe.

Here are the cumulative returns for the past 12 months and 3 years:

Grayside SRI Model Portfolios

Portfolio	1 Year	3 Years
SRI Cautious	4.3%	11.4%
SRI Balanced	5.0%	13.5%
SRI Progressive	5.8%	15.4%

***Net** investment return after charges taken up to 16th January 2021 (not including adviser charges)
Source: Nucleus

EQ investors Positive Impact Portfolios

Portfolio	1 Year	3 Years
Positive Impact 4 Cautious	9.86%	19.14%
Positive Impact 6 Balanced	13.68%	26.09%

***Net** investment return after charges taken up to 31st December 2020 (not including adviser charges)
Source: EQ January Factsheet

Please also note that the Positive Impact 4 fund sits somewhere between our own SRI cautious portfolio and balanced portfolio whilst the Positive Impact 6 is more in line with our SRI Progressive portfolio.

News and Developments

Publication of The Sixth Carbon Budget and Energy White Paper from Government

The Climate Change Committee, the UK Government's independent advisor on emissions targets and climate change, has published ***The Sixth Carbon Budget: The UK's Path to Net Zero*** - a first-of-its-kind report which sets out the actions the UK will need to take to achieve net-zero emissions by 2050.

This has been followed by a Government Energy White Paper delivering a plan on how this can start to be delivered.

The recommended pathway requires a 78% reduction in UK territorial emissions between 1990 and 2035. In effect, bringing forward the UK's previous 80% target by nearly 15 years.

The Budget is planned to be met through four key steps:

1. **Take up of low-carbon solutions.** People and businesses will choose to adopt low-carbon solutions, as high carbon options are progressively phased out. By the early 2030s all new cars and vans and all boiler replacements in homes and other buildings are low-carbon – largely electric. By 2040 all new trucks are low carbon. UK industry shifts to using renewable electricity or hydrogen instead of fossil fuels, or captures its carbon emissions, storing them safely under the sea.
2. **Expansion of low-carbon energy supplies.** UK electricity production is zero carbon by 2035. Offshore wind becomes the backbone of the whole UK energy system, growing from the Prime Minister's promised 40GW in 2030 to 100GW or more by 2050. New uses for this clean electricity are found in transport, heating and industry, pushing up electricity demand by a half over the next 15 years, and doubling or even trebling demand by 2050. Low-carbon hydrogen scales-up to be almost as large, in 2050, as electricity production is today. Hydrogen is used as a shipping and transport fuel and in industry, and potentially in some buildings, as a replacement for natural gas for heating.
3. **Reducing demand for carbon-intensive activities.** The UK wastes fewer resources and reduces its reliance on high-carbon goods. Buildings lose less energy through a national programme to improve insulation across the UK. Diets change, reducing our consumption of high-carbon meat and dairy products by 20% by 2030, with further reductions in later years. There are fewer car miles travelled and demand for flights grows more slowly. These changes bring striking positive benefits for health and well-being.
4. **Land and greenhouse gas removals.** There is a transformation in agriculture and the use of farmland while maintaining the same levels of food per head produced today. By 2035, 460,000 hectares of new mixed woodland are planted to remove CO2 and deliver wider environmental benefits. 260,000 hectares of farmland shifts to producing energy crops. Woodland rises from 13% of UK land today to 15% by 2035 and 18% by 2050. Peatlands are widely restored and managed sustainably.

The Government's Energy White Paper has built on this and provides more detail around a 10-point plan to achieve the 2050 target.

There have been positive reactions from Industry on the White Paper, although often accompanied by some caution. Nick Molho, Director of the Aldersgate Group (a group of major businesses leading the push for a low carbon economy) has welcomed the ambition shown in stating the foundations of a low carbon strategy but has demanded that an entire Zero Carbon Power Sector needs to be in place by 2035. In particular,r he has asked for significant investment in grid reinforcements, storage and flexibility services to be put in place, supported by relevant policy to be put in place now.

Environmental Groups such as Greenpeace have also commended the ambition but have criticised particular points, notably the inclusion of additional Nuclear capacity, which they argue is unnecessary. There is also an overall recognition that large parts of consumer-based emissions are sourced overseas and therefore will not form part of the UK target, and that far more needs to be done on the international stage.

UKSIF

Fund Managers Surveyed approach to Oil Companies

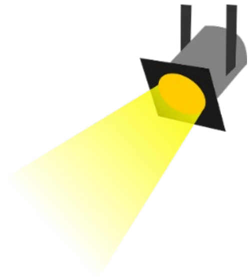
The UK Sustainable Finance Association (UKSIF) carried out survey of 39 of the top fund managers in the investment sector at the end of 2019. This shows a growing consensus among managers of the threat of climate change-related financial risks to investments in Integrated Oil Companies (IOCs).

The survey revealed the following specific points.

Only two out of 39 fund managers see IOCs that do not respond to climate change-related risk within 10 years as attractive investments, whilst under a quarter of all respondents do not see IOCs as attractive on any time horizon and this includes three firms that have no IOC investments.68% of 31 respondents see IOCs as attractive investments only if they transition to business models aligned with the Paris targets.

In respect of Oil Companies, successful engagement by fund managers is vital in achieving the necessary transition to a low carbon energy model. Whilst most managers held an active engagement process only 7 fund managers have set deadlines for engagement objectives to be realised.

In respect of our recommended portfolios, fossil fuel companies are not supported with overall exposure being less than 3%.



Spotlight on Stocks

For this addition, we are featuring three case studies of stocks, which appear in our portfolios, that are optimising the opportunities from major sustainable themes.

These are Clean Energy, Conservation and Bio-Diversity Production, and Sustainable Food Production.

The World is already entering a new stage of significance for renewable energy. This will only escalate further as we emerge from the COVID pandemic.

A vital cog in the renewable wheel is wind power, and therefore Companies well placed in this sector will offer tremendous investment potential.

Danish company, Vestas, are as well placed as anybody to benefit from the importance of this market. As one of the most profitable wind companies in the world, they provide 122 GW of wind turbines in 82 countries and have installed more wind power than anyone else. Their position has been further strengthened, in November last year, by the acquisition of Mitsubishi shares in their previously formed joint venture.

They are also driving new technology that pushes them into new markets. For example, they have recently installed turbines in India, where there are generally low wind conditions. These new turbines significantly improve load production under such conditions.

Vestas is also very progressive with regards their total sustainability footprint. They have announced that they wish to be totally carbon neutral by 2030.

They have also recently introduced a strategy known as ‘Sustainability in Everything We Do’. Particular attention is focussed on their complete supply chain, not least of which is the welfare of their 25,000 employees. A good example of this is the setting up of their SLO (Social License to Operate).

This a license granted by approval from local communities before new installations can take place. This aims to foster stronger collaboration between the company and its immediate environment.

Vestas is a stock held by the Pictet Global Environmental Opportunities fund held within the Grayside SRI portfolios.

Part of Rathbone's Ethical Bond Fund (which appears in both Grayside's and EQ's portfolios) invests in the **Charity, Canal & River Trust.**

The Trust holds guardianship for over 2,000 inland waterways in the UK.

Protecting these waterways is essential as they are recognised as prime areas for biodiversity with 30% being recognised for their special environmental value.

They also provide an extremely valuable social and recreational outlet for many people, a need that has become ever more evident during the COVID crisis.

The Trust also provides a valuable social and educational role, as it holds a number of outdoor classes throughout the year.

Food production carries environmental footprints, and it is now widely known that diets high in animal products are associated with more severe levels of carbon emissions and natural resource use.

The largest driver of tropical deforestation is land clearance for cattle ranches, and 14.5% of all global greenhouse gas emissions are related to animal farming. There are differences between the carbon footprint of different animal protein sources. Cattle, raised both for meat and dairy, present the greatest emissions driver – with about 65% of the livestock sector's emissions.

As a result, behavioural changes at the consumer level, including a move to more plant-based diets, are seen as the most powerful drivers to reduce the environmental harm from animal farming.

Beyond Meat is a US-based consumer product company that is disrupting food as we know it, by providing plant-based patties and mince - designed to look, cook and taste like fresh ground beef. Their Beyond Meat burgers and mince are based on pea protein and is considered nutritionally and functionally similar to beef – but pack just a fraction of the associated environmental footprints in production. Based on thorough academic research, the

Beyond Burger generates 90% less greenhouse gas emissions, has over 99% less impact on water scarcity and 93% less impact on land-use compared to a quarter pound of U.S. beef. The company wants to appeal to all consumers and makes it easier to choose a more environmental way of eating. As a pioneer in the food tech space, the company is rapidly expanding its global footprint and increasing accessibility – with products now readily available in UK supermarkets.

This stock is held within the Baillie Gifford Positive Change Fund held within the EQ Portfolios, and like the other holdings mentioned above, offers great opportunities going forward.

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