Sustainable Investing

It is now commonplace to read that sustainable investing has hit the mainstream. With issues such as climate change, diversity and a firm's social track record dominating the headlines, investors are now much more aware of how their money is being used and want to align this with their own personal values. As a result of this the Hanson Income Fund has been relaunched as the Hanson Sustainable Income Fund.

Looking at the big picture, almost all of us now accept that the clock is ticking to address the climate crisis. The required technology and awareness for change is already here, but capitalism needs to provide the answer as without the profit motive there is little incentive to change despite the big regulatory stick that increasingly bears over us. Transitioning to a low-carbon economy means dealing with growing physical risks such as extreme weather events and investing today to avoid future risk scenarios developing. We estimate that about 70–80% of the real cost of achieving the net-zero emissions target must come from the private sector. This is a huge amount of money, probably trillions of dollars before the world becomes net zero in 2050, but it is also a big opportunity. Contributing to a low-carbon, sustainable future could provide a greater pay-off to investors over the long-term.

Investors are catching on as strong performance, particularly in 2020, is driving interest. A 2020 study by Morningstar, the data provider, found that most sustainable funds have performed better than equivalent conventional funds over one, three, five and 10 years. Research from BlackRock, the world's biggest asset manager, says ESG strategies outperformed during last year's period of intense volatility, with 94 per cent of leading sustainable indices beating their parent benchmarks in the first quarter. "The experience of 2020 will help remove investors' worry that ESG investing means giving up returns," says Stephen Tu, vice-president at Moody's, the rating agency.

Unsurprisingly, the EU have got in on the act and on March 10 2021 will introduce new regulatory rules to help prevent greenwashing. Any asset manager that wants to market their fund as a sustainable product will be subject to tough disclosure requirements. The Hanson Sustainable Income Fund is one of those products that has had to adopt the new disclosures.

In repositioning the fund, we wanted to go further than simply adhere to the new regulations and do the right thing by investing sustainably. The objective of the Hanson Sustainable Income Fund is to seek to invest in dividend paying companies which have embraced sustainability in the areas of Environment, Society & Governance (ESG). We believe that by embracing the sustainable agenda companies will not only build more resilient business models, but they will make a vital contribution in the transition to a green economy.

The fund's sustainable goal is to make 'a net contribution to sustainability' by aiming to invest in those companies who have embraced a sustainable agenda and recognized the risks and opportunities that ESG factors pose to their business. As a result, it is vital to assess and measure 'sustainability'. The fund's investment manager, Arlington Capital, has developed a sustainable scoring system that all holdings are subject to and scored on an annual basis. This will help the fund fulfil its sustainable regulatory requirements and avoid greenwashing. The sustainability of a business concerns the degree to which they not only reduce negative impacts on the natural environment through their operations, but also invest in business practices that promote policies to make wide-reaching progress toward sustainable development.

Looking at this by way of an example. In mid 2020 the Fund was invested in two paper and packaging firms, DS Smith and Smurfit Kappa. The holding in DS Smith was sold after the firm cut its dividend as a result of the Corona Virus crises in 2020. During our sustainable review earlier this year, both companies were assessed using Arlington's sustainable scoring system, DS Smith scored +18/24 vs Smurfit Kappa +22/24. They key difference being in the Climate tests. It is interesting to subsequently note that over the last year Smurfit Kappa outperformed DS Smith by around 10%. The system is proving a usual tool to compare companies in the same sector as well as sustainability overall. In the Long term Arlington believes that those companies with higher sustainable scores should perform better than those without.

There will be roadblocks for sustainable investing, in the public markets we find that disclosure levels by companies could be much higher. Our journey on how we measure sustainability will constantly evolve, but it is essential to establish if the fund is meeting its sustainable goals. Those who ignore this do so at their peril and risk being labelled a greenwasher. Something the Hanson Sustainable Income Fund is determined to avoid.

March 2021

Disclaimer

shall not apply. In addition, the compensation scheme available in the UK shall not be available. This product is only suitable for **professional clients** who are assessed to be capable of making their own investment decisions and understanding the risks involved.

It has no regard to the specific investment objectives, financial situation or particular needs of any recipient**. It is published solely for information purposes and is not to be construed as a solicitation or an offer to buy any assets, securities or related financial instruments.** No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the investments, assets, securities, markets or development referred to in the materials. It should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this material are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Arlington as a result of using different assumptions and criteria. Arlington, nor any of our directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this material.

The value of an investment and the income from it can go down as well as up, it may be affected by exchange rate variations, and you may not get back the amount invested. Past performance is not necessarily a guide to future performance. The redistribution of this material is prohibited.

Please direct any inquiries with regard to statements made in this document to Arlington.

Arlington Capital Limited is authorised and regulated by the Financial Conduct Authority with FRN 810629, registered in England and Wales with CN 09578016, with its registered offices at 6 Arlington Street, St James's, London, SW1A 1RE.