



# FROM IDEALISM TO REALISM

*What does the energy transition really mean?*

# THE OPTICS OF TRANSITION

Sort of funny, but not

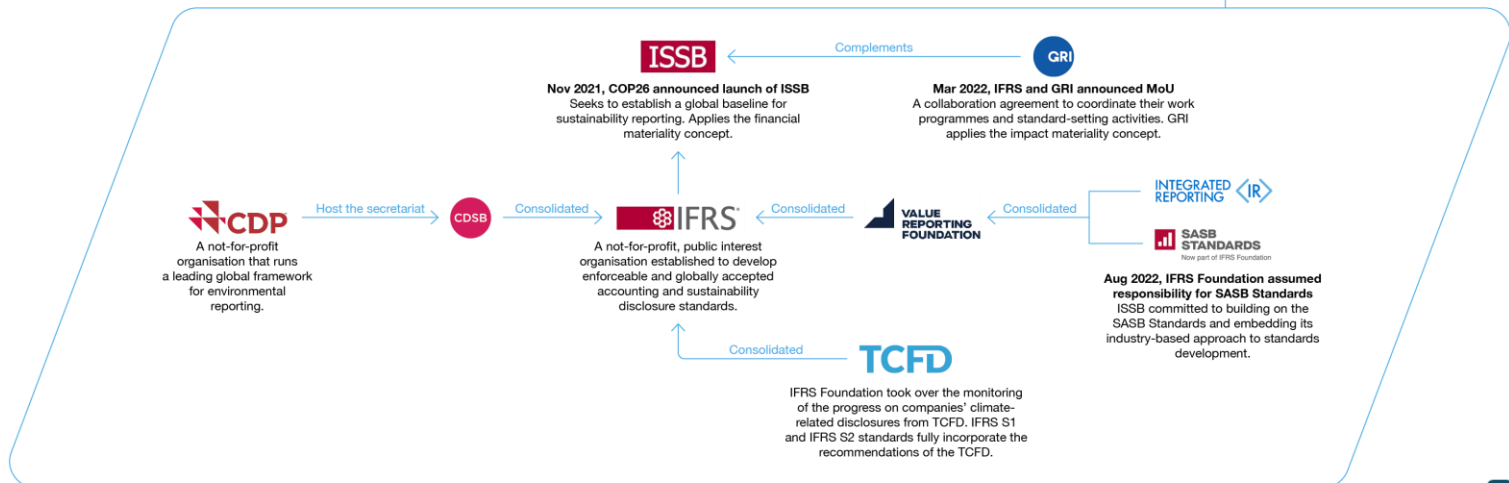
- ④ Sydney man has set an ambitious target to phase out his alcohol consumption within the next 29 years, as part of an ambitious plan to improve his health
- ④ The programme will see Greg Taylor, 73, continue to drink as normal for the foreseeable future, before reducing consumption in 2049, when he turns 101.
- ④ It is not realistic to transition to zero alcohol overnight. This requires a steady, phased approach where nothing changes for at least two decades. Greg added he may need to make additional investments in beer consumption in the short term, to make sure no night out is worse off.
- ④ Moreover, Greg will be able to bring forward 'drinking credits' earned from days he has not drunk over the past forty years, meaning the actual end date for consumption may actually be 2060





# REGULATORY FRAMEWORK

Multi-tiered, detailed and growing



Source: IFC, 2023



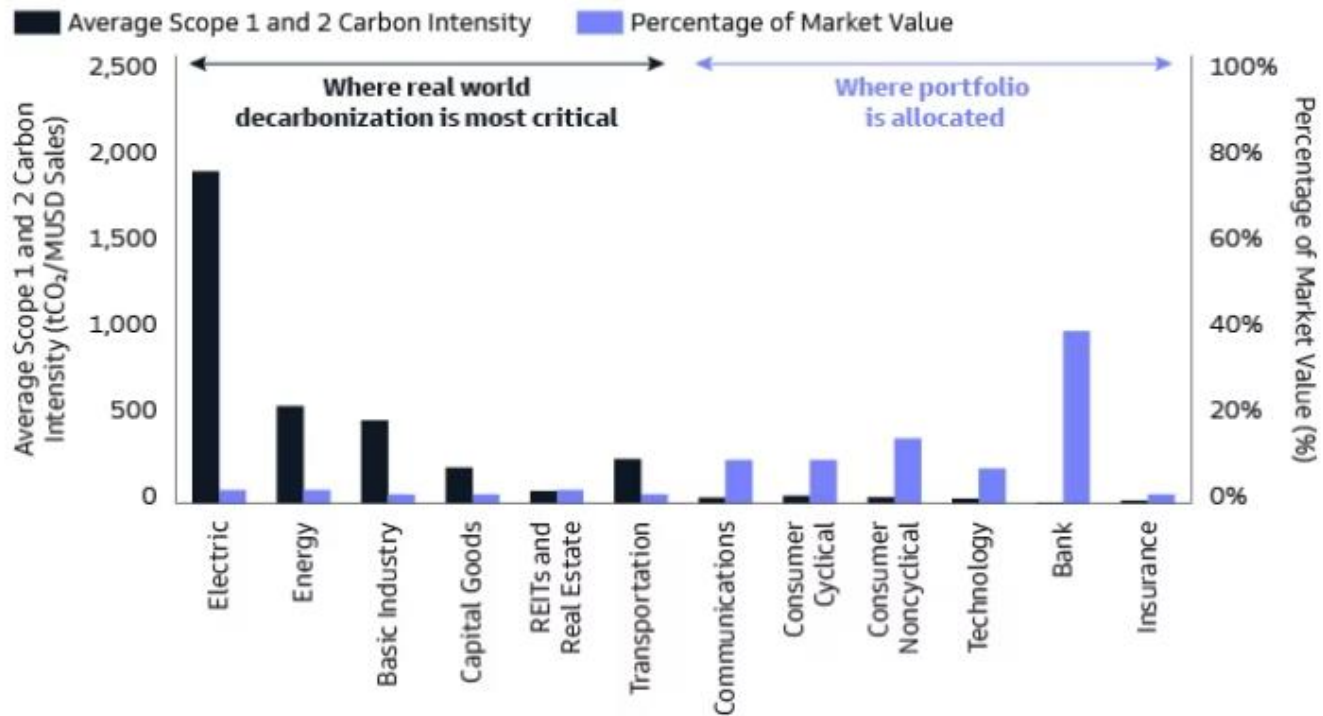
# MEASURING AND REPORTING

It's complicated

- ① **CSL** – a biotech company developing and producing vaccines – had an usually high carbon footprint attributed to its business, due to the extended lifetime of those individuals who received inoculations. Applying the same logic surely we should simply invest in tobacco companies?
- ① **Honeywell** – an advanced technology business – whose software to the aviation industry significantly improves the energy efficiency of jet engines, thus reducing emissions. The same company also provides guidance systems for missiles.
- ① **Consumer staples' business** – laundry detergents which enable clothes to be washed at 30 degrees rather than 60. Is the saved energy attributable to the detergent maker or the washing machines manufacturer?

# WHAT IS SUSTAINABLE?

How do we actually create impact...?



Source: Goldman Sachs Asset Management. As of September 2023. Based on an illustrative portfolio. Includes Scope 1 and 2 emissions. For illustrative purposes only.

# AVOIDING HIGH EMITTERS

Results in carbon-light portfolios but does not fix emissions

## Amundi MSCI World Climate Transition ETF

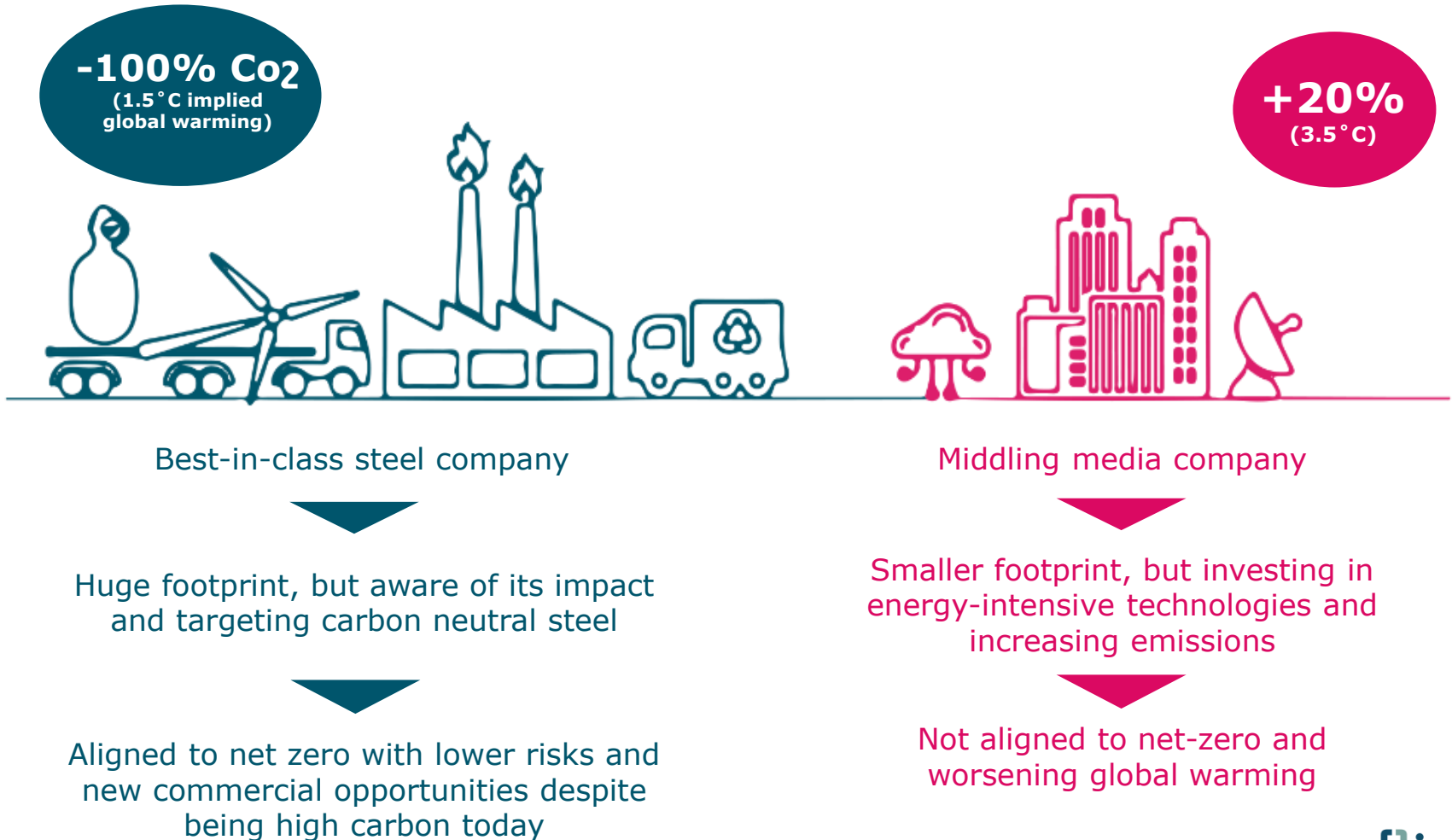
<b>Holding</b>	<b>%</b>
Tesla	4.1%
Apple	3.8%
Microsoft	3.8%
Nvidia	3.7%
Amazon.com	3.0%
Eli Lilly	2.7%
Alphabet Class A	1.4%
Meta Platforms	1.3%
Alphabet Class C	1.2%
Boardcom	1.1%
<b>Total</b>	<b>26.2%</b>

## iShares S&P 500 Paris-Aligned Climate ETF

<b>Holding</b>	<b>%</b>
Microsoft	5.1%
Apple	5.0%
Nvidia	2.8%
Amazon.com	2.4%
Alphabet Class C	1.7%
Meta Platforms	1.3%
Schneider Electric	1.1%
Eli Lilly	1.1%
Boardcom	1.1%
Tesla	1.1%
<b>Total</b>	<b>22.7%</b>

# WHAT IS MOST IMPACTFUL?

Investing in carbon-intensive transition leaders



# SUSTAINABLE INVESTING

Not just angelic companies

When investing our sustainable managers consider:

- ② **Materiality:** what percentage of the revenues are generating a positive impact?
- ② **Balance:** what are the company's actual and potential negative impacts?
- ② **Intentionality:** how central is the product or service to a company's strategy and mission?
- ② **Additionality:** would the positive impact occur if the company's solution did not exist?
- ② **Public oversight:** the potential for positive engagement, unable to influence private businesses





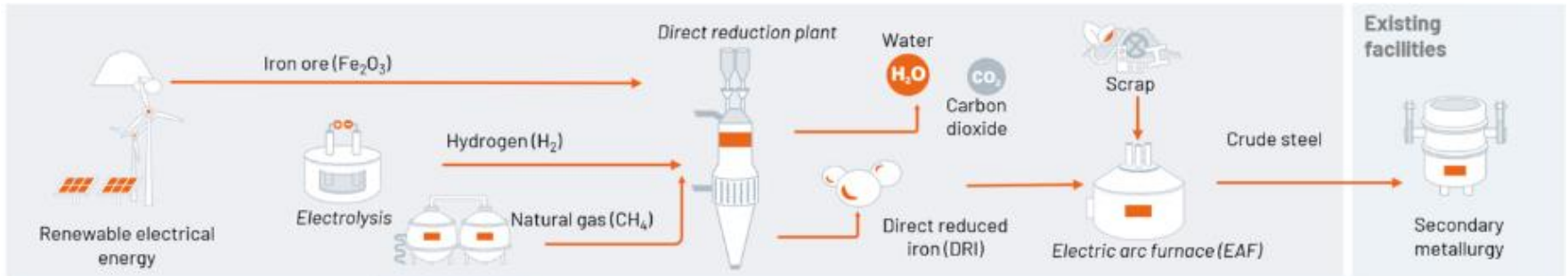
# SUSTAINABLE INVESTING

## Transition companies are part of the solution

- ① Clean is good, but does sustainable investment mean only investing in 'green' companies, or an investment that leads to a sustainable future?
- ① Is it better to invest in a capital light business with a low carbon footprint, e.g. software company; or support a steel manufacturer with the technology to massively reduce the carbon intensity of its products or its customer's products?
- ① Unless we find a way to decarbonise the hard to abate industries (e.g. steel manufacturing accounting for c.8% of global emissions), the timeline for net zero targets becomes unachievable
- ① Invest in companies with positive transitional characteristics; the 'improvers' and 'enablers' of improvement – rather than simply the 'good' of today

# INDUSTRIALS

Green steel - making a *material* difference



- ④ One of Europe's largest steel producers - generates around eight million tons of CO<sub>2</sub> a year
- ④ 2022 launched - SALCOS® (Salzgitter Low CO<sub>2</sub> Steelmaking) - a project aimed at reducing CO<sub>2</sub> emissions by converting integrated steelworks into low-carbon crude steel production, in three stages, over the period up until 2033
- ④ Initial investment of €723 million to replace blast furnaces with direct reduction plants and electric arc furnaces
- ④ Enable the production process formerly based on coking coal to be replaced by a hydrogen-based route
- ④ Emission savings of around 95% a year – thereby avoiding c.1% of Germany's carbon emissions

Briefing | The burning question

# First electric cars. Next, electric factories?

They could be a major new way to slow global warming





# SHIPPING

ARGO: keeping COP26 goals afloat

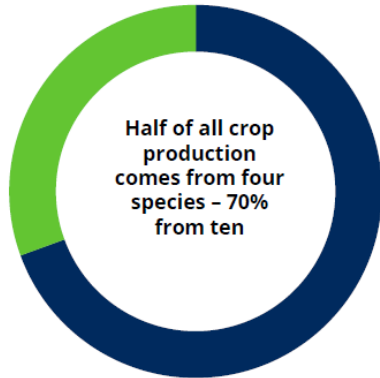
	Transit time (D2D)	CO <sub>2</sub> (kg)
Air Freight	2 days	5,250kg
<b>ARGO</b>	<b>2 days</b>	<b>0kg</b>
Sea Freight	7.5 days	210kg



# GLOBAL FOOD & WATER SYSTEM

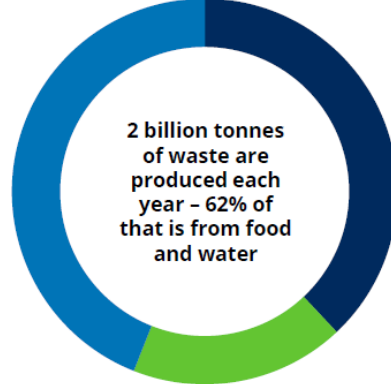
Four key sustainability areas need to be tackled

## Biodiversity



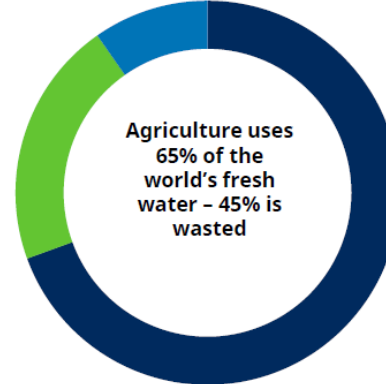
- Top 10 crops by production
- Other

## Pollution and Waste



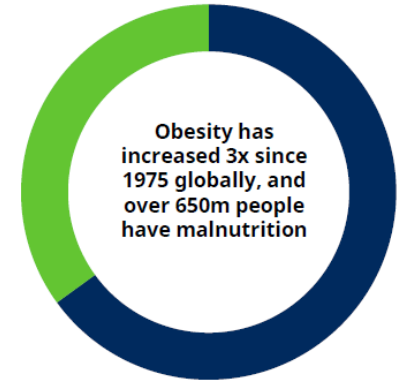
- Other Waste
- Non-Organic Food & Water Packaging Waste
- Organic Food & Water Packaging Waste

## Water Usage



- Agriculture
- Industry
- Municipalities

## Health and Nutrition

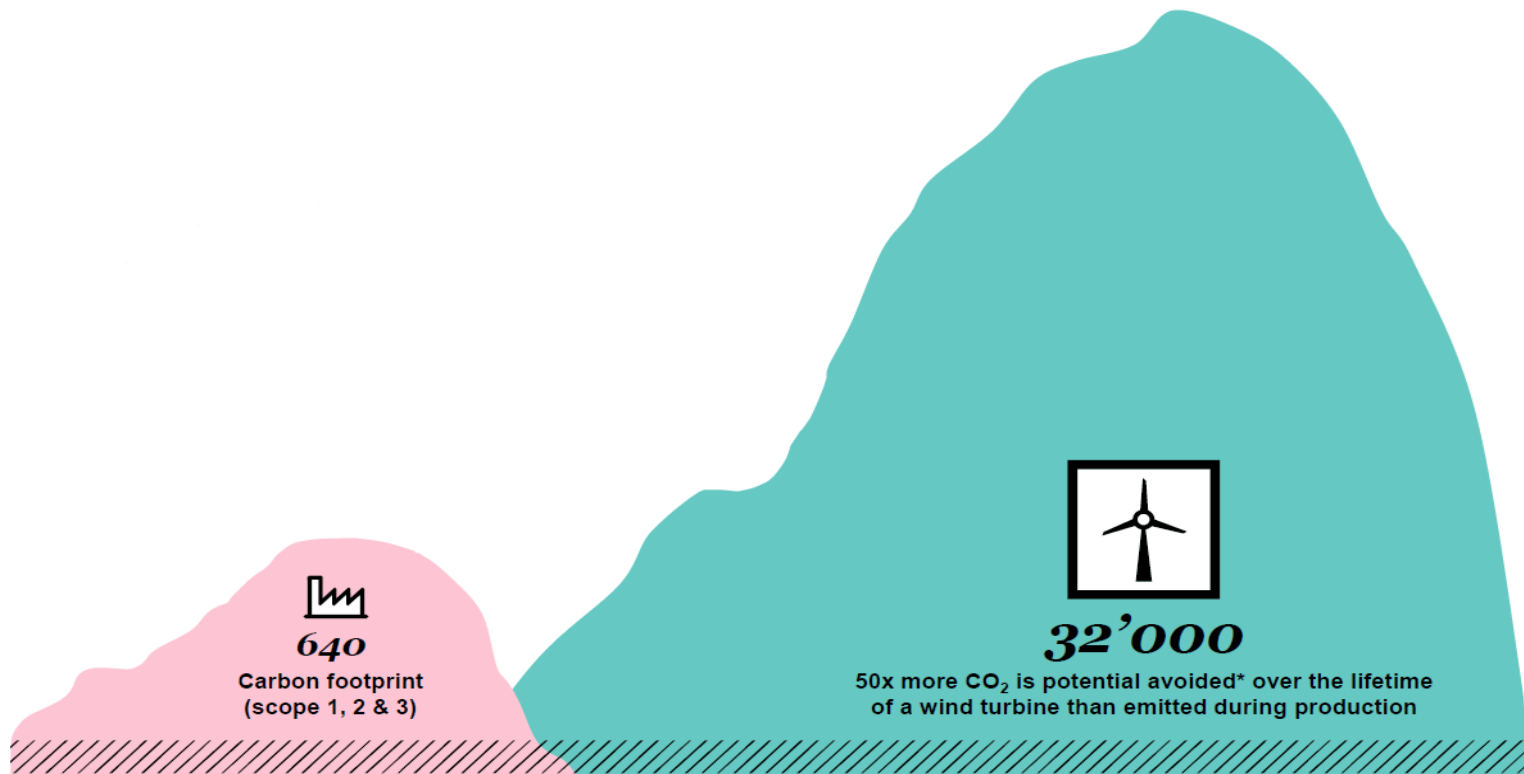


- Healthy
- Unhealthy

Source: EU, World Bank, Our World In Data, OECD, National Geographic, Schroders – 31 August 2023.

# MORE THAN JUST INVESTING

Wind turbines: carbon footprint vs. carbon reduction





# ENGAGEMENT

Regnan Global Equity Impact Solutions

Siemens Gamesa

- ① End-of-life disposal of turbine blades – 85% of wind turbine components can easily be re-cycled, but composite materials used in blades remain a challenge
- ① Regnan consultation with Composites UK and researchers from University of Leeds
- ① Siemens Gamesa subsequently announced their participation in **DecomBlades**, a cross-sector consortium to establish a recycling industry for composite materials

# SUSTAINABILITY TODAY

No longer optional

- ④ Sustainability means making economic prosperity long lasting, more socially inclusive and less dependent on exploitation of finite resources and the natural environment.
- ④ Over the past decades, this theme has also permeated financial markets. The rationale for sustainable investing has gained support and legitimacy. This imperative of sustainable finance is nothing new; what is new is the momentum behind its implementation.
- ④ Today, companies that provide solutions to the challenges faced are well placed to grow strongly.
- ④ We believe, by investing in these firms, our clients can make a positive contribution towards a more sustainable world, align wealth with their values and generate attractive capital gains.





# WHERE WE SIT

On the investment spectrum



Exclude certain investments from a portfolio, based on specific ESG criteria (e.g. tobacco companies)



Include ESG credentials as a factor when performing the financial analysis of an investment



Screen investments to ensure their minimum standards of business practice meet international norms and standards (such as those issued by the OECD, UN and UNICEF)



Invest in sectors, companies or projects which have the best ESG practices amongst industry peers



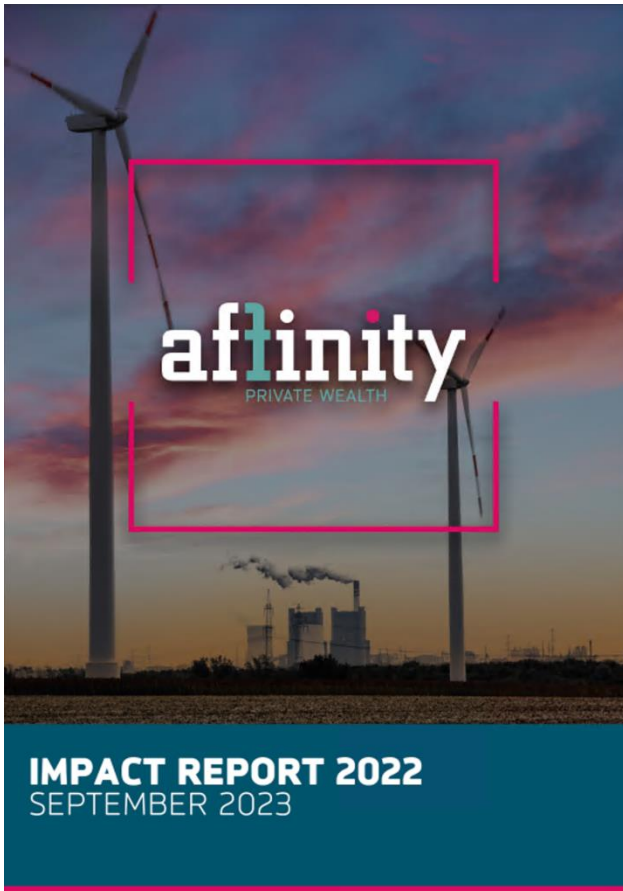
Invest in sectors, companies or projects specifically related to sustainability (such as clean energy, green technology or sustainable agriculture)



Invest in sectors, companies or projects which will have the greatest social or environmental impact

# REPORTING IMPACT

A critical element of our mandates



Provides investors in Affinity's Sustainable Strategies with an insight to the positive contributions their capital has made towards the UN Sustainable Development Goals (SDGs)

Boston Common Global Impact Equity invests in impact themes such as Microfinance, Sustainable Mobility, Circular Economies, and Renewable Energy. The result is a high-conviction portfolio of 40-60 high-impact companies whose products and services help facilitate the transition to a just and sustainable world. Using their voice as active shareowners, Boston Common push companies and stakeholders to meet the urgent challenges faced by the planet and its people, such as climate change and systemic inequity.

## Carrier Global Corp (US)

A US-based company that provides sustainable solutions for heating, air-conditioning and refrigeration, including electric and geothermal heat pumps, which are pivotal to decarbonising buildings. Carrier's use of CO2-based refrigerants is much greener than more common alternatives. Positioned to benefit from efficiency initiatives in the US, and carbon reduction goals in Europe and Asia, Carrier is aiming to help customers avoid more than 1 gigaton of GHG emissions by 2030.



## Engagement

Boston Common focus on macro-level systemic and emerging risks and impacts through their three-year engagement strategy cycle. This is implemented in collaboration with other investors and stakeholders, and coupled with bottom-up engagement focused on new fund holdings. A specific area of engagement success has been achieved through sustained dialogue with company management. The Boston Common team engaged with Kurita Waters, a leading Japanese Water treatment company, on issues surrounding its governance of ESG factors. The company has since added three sustainability KPIs into its performance evaluations of board members and directors.

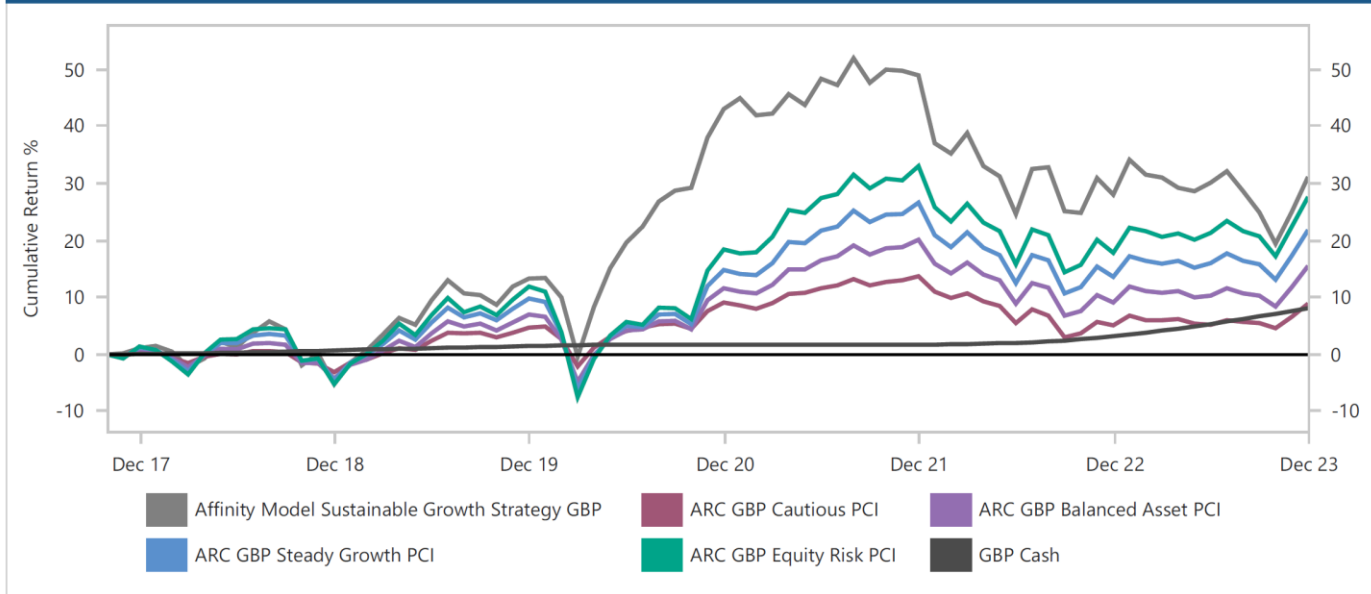
Active stewardship efforts have seen Boston Common voting against the boards of 65 companies due to board diversity inadequacies. A specific example of this was a vote against a proposed male director of BioNTech, given that women comprised only 16.7% of its board. They have encouraged the company to improve its female director pipeline, and to adopt a 30% gender board diversity target.



# SUGGESTUS

POWERED BY ARC RESEARCH

## Cumulative Returns % (74 Months to Dec 23)

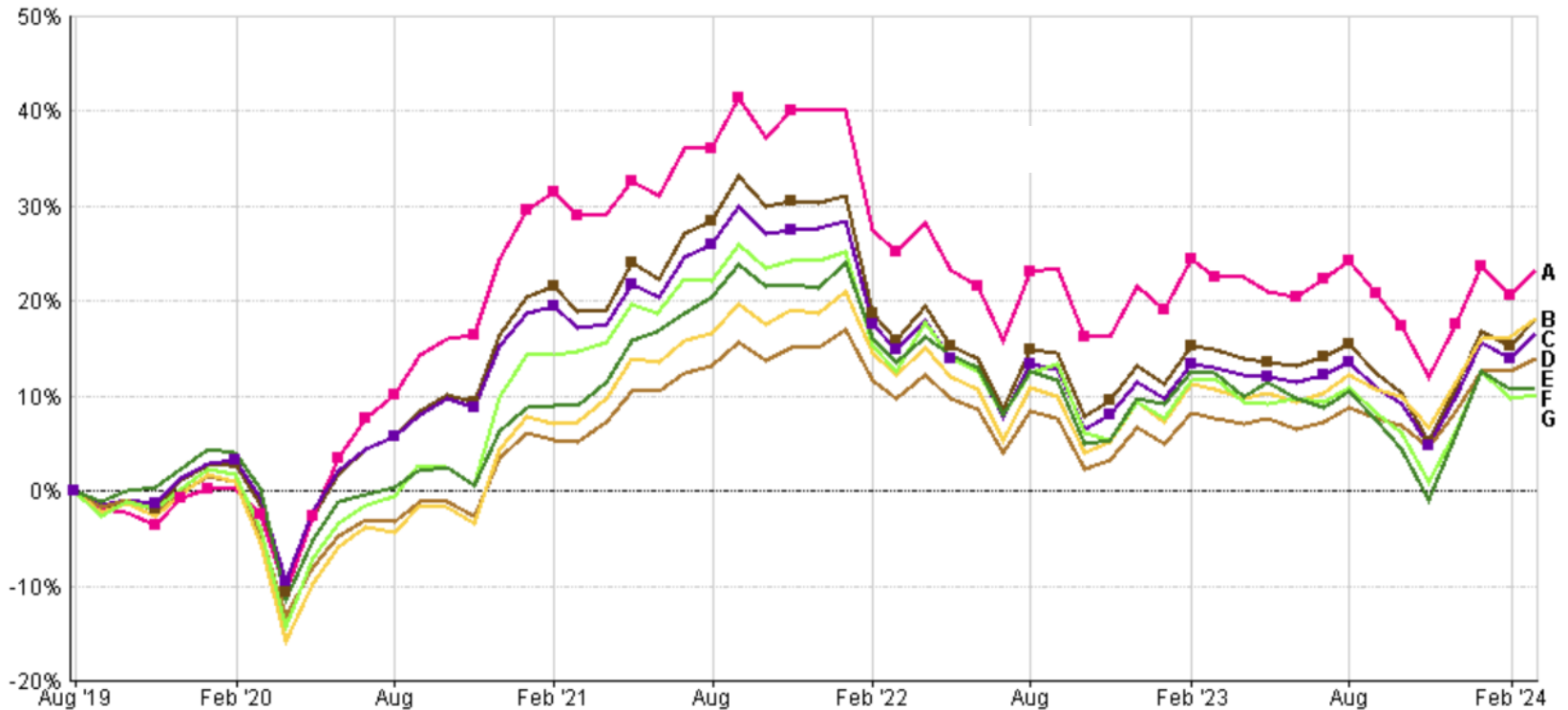


## Calendar Year Returns (%)

	QTD	YTD	2022	2021	2020	2019	2018
Model	4.9	2.4	(14.1)	4.1	26.2	19.5	(6.2)
ARC GBP Equity Risk PCI	5.7	8.3	(11.4)	12.3	5.8	18.0	(6.5)
GBP Cash	1.3	4.7	1.4	0.0	0.3	0.7	0.6

# STRATEGY PERFORMANCE

Challenging through 2023 – but credible long term versus peers

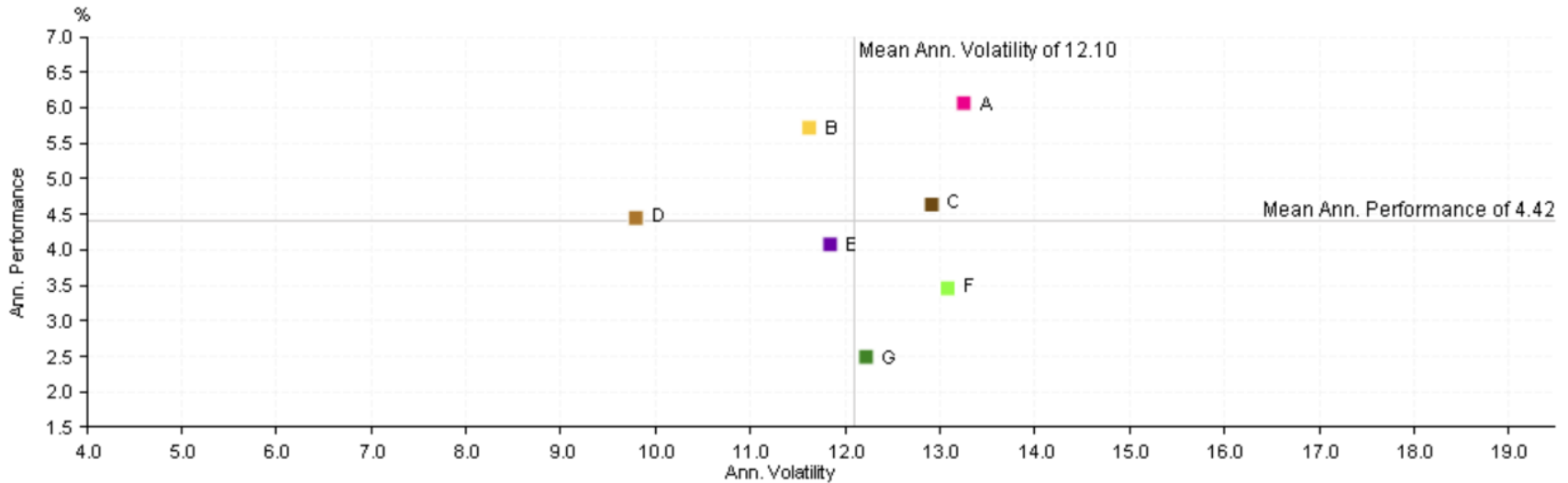


- A - Affinity Platform Sustainable Growth GBP Model 22/02/2024 GTR in GB [23.36%]
- B - EQ Investors Positive Impact Adventurous 16/02/2024 GTR in GB [18.15%]
- C - ARC Sterling Equity Risk PCI TR in GB [18.11%]
- D - EQ Investors Positive Impact Balanced Plus 16/02/2024 GTR in GB [16.57%]
- E - ARC Sterling Steady Growth PCI TR in GB [13.89%]
- F - CFP Castlefield - Sustainable Portfolio Growth F Inc TR in GB [10.71%]
- G - Handelsbanken - Growth Sustainable Multi Asset C Acc in GB [10.10%]



# STRATEGY PERFORMANCE

Risk/reward dynamics versus relevant peers (4 years)



29/02/2020 - 29/02/2024 ©FE fundinfo 2024

Key	Name	Annualised Performance	Annualised Volatility
A	Affinity Platform Sustainable Growth GBP Model GTR in GB	6.07	13.25
B	ARC Sterling Equity Risk PCI TR in GB	5.72	11.62
C	EQ Investors Positive Impact Adventurous GTR in GB	4.64	12.91
D	ARC Sterling Steady Growth PCI TR in GB	4.45	9.79
E	EQ Investors Positive Impact Balanced Plus GTR in GB	4.08	11.84
F	Handelsbanken - Growth Sustainable Multi Asset C Acc in GB	3.46	13.08
G	CFP Castlefield - Sustainable Portfolio Growth F Inc TR in GB	2.50	12.22



# OUTLOOK

## Macro & market views

- ④ We have a constructive outlook heading into 2024
- ④ Risks remain – potential for economic slowdown, geopolitical escalation, an 'ugly' US election, and political backtracking around green targets
- ④ But many positives – further disinflation & rate cuts likely, AI boosting productivity and underpinning demand for renewables, infrastructure spending bills ramping up, and 'green stocks' having reset to more attractive valuations in 2023
- ④ We're not 'all in' - but maintained exposure to key sustainability themes, combined with resilient exposure to high quality large-caps and fixed income

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