Grayside's Responsible Investing Newsletter

July 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 other proposition) have continued to perform well as we have continued to emerge out of the global pandemic. In addition, they are excellently 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 last year and 3 years as a %

Grayside SRI Model Portfolios

Portfolio	1 Year	3 Years
SRI Cautious	6.65%	15.09%
SRI Balanced	11.67%	30.06%
SRI Progressive	16.64%	24.15%

* Investment Return before **any** charges based on 21/7/21 values
Source: Nucleus

EQ investors Positive Impact Portfolios

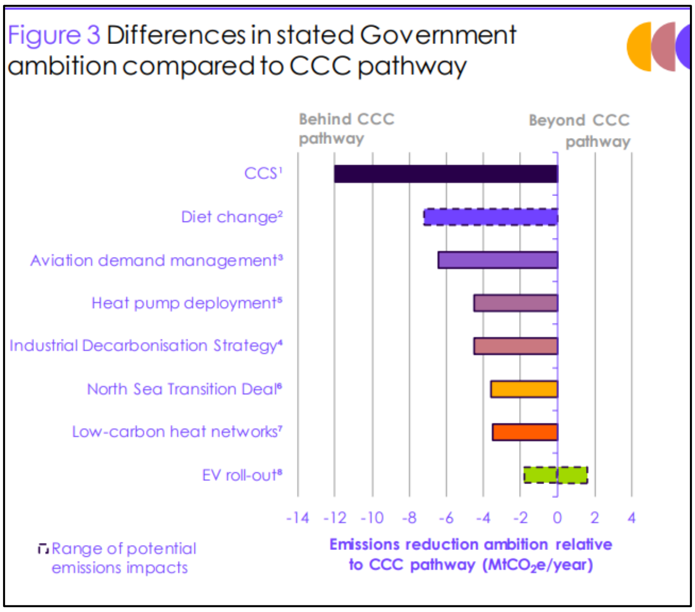
Portfolio	1 Year	3 Years
Positive Impact 4 Cautious	11.58%	19.14%
Positive Impact 6 Balanced	16.17%	40.39%

* Investment Return before **any** charges based on 21/7/21 values
Source: Nucleus

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

Stark Warning to Government from Climate Advisers



**CCC Progress in reducing emissions 2021 /Report to Parliament*

The Government's main climate change adviser, The Climate Change Committee, has issued a stark warning to the Government stating it has been too slow to follow its admirable promises on climate change with delivery. In their words, 'This defining year for the UK's climate credentials has been marred by uncertainty and delay to a host of new climate strategies. Those that have emerged have too often missed the mark. With every month of inaction, it is harder for the UK to get on track'.

The image above highlights that in virtually every major sector, progress in line with route to net zero pathway for 2050 is well behind where it should be.

The Committee led by Lord Deben have made the following demands, amongst others to help get action back on track. *Read [Link to report](#) for further details.*

- Government leadership is vitally needed, underpinned by a strong Net Zero Strategy:

- A Net Zero Test needs to be applied to **all** Government policy to ensure they are compatible with UK climate targets. In particular, mention was made with regard to planning decisions, which need to have reduced carbon emissions at their centre.

- Delayed plans on surface transport, reduced aviation emissions, hydrogen, biomass and food must be delivered.

- Plans for the power sector, industrial decarbonisation, the North Sea, peat and energy from waste must be strengthened.

  The jury's out, so we shall wait and see.

Catastrophic floods could hit Europe far more often, study finds

Catastrophic floods such as those that struck Europe recently could become much more frequent as a result of global heating, researchers say.

High-resolution computer models suggest that slow-moving storms could become 14 times more common over land by the end of the century in a worst-case scenario. The slower a storm moves, the more rain it dumps on a small area and the greater the risk of serious flooding.

Researchers already knew that the higher air temperatures caused by the climate crisis mean the atmosphere can hold more moisture, which in turn has led to more extreme downpours. The latest analysis, however, is the first to assess the role of slow-moving storms in causing extreme downpours in Europe.

This, not surprisingly has further focussed Government minds on the pace of the fight for adapting and mitigating against climate change.

FCA

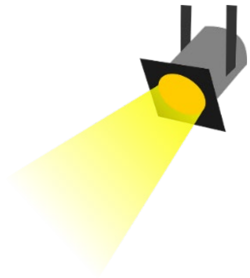
Financial Services Conduct Authority Demand Fund Managers to avoid greenwashing

The FCA have recently written to the Chairman of all the major fund management houses requiring them to meet certain principles in order to ensure all funds, stating Environmental Social Governance credentials, really provide what they claim.

The FCA have highlighted too many examples of Greenwashing, where there is little evidence of ESG analysis taking place. They quote the example of a Passive ESG Fund that was using an investment index that was clearly not tested against ESG. There were other cases where the fund manager claimed that underlying holdings were reporting on carbon emissions, but these were not disclosed fully, neither was a process of how they assessed ESG factors.

They have also asked that clearer disclosure be provided to the end clients so that they can fully understand how they are approaching the demand for more sustainable investment.

With the huge expansion of interest in ESG it's vital that the Regulator is being pro-active on this subject.



Spotlight on Stocks

In this edition, we are featuring three case studies of stocks, which appear in our portfolios, that are really focussed on protecting our limited resources through more effective management and the circular economy.

Tomra is a Norwegian company that manufactures and services **Reverse Vending Machines.** As the name suggests, the machines will accept returned drinking vessels, be they plastic or glass bottles, or cans. This way, these vessels can be recycled and reused, saving a considerable amount of packaging and resources used in producing new ones.

Tomra have over 80,000 installations spread over 60 markets. They estimate that approximately 40 billion used beverage containers are captured every year, contributing to about 4 million tons in avoided CO2 emissions, as well protecting precious resources, such as water, minerals and oil.

Their machines can also sort materials, thereby reducing transport costs that might be needed for sorting. It also offers a clean form of recycling that avoids any possible contamination.

The incentive for the customer to return the vessels harps back to the old deposit return schemes of the past, when you took your old bottles back to the corner shop. It works the same way; a small extra deposit is added on to the price of the new container and is then returned when that container is fed back into the machine.

Finally, Tomra are the market leader in this industry and, with the rise in the demand for recycling and the circular economy, it offers good growth opportunities.

Tomra is held in the Stewart Worldwide Sustainability Fund which appears in each of the Grayside SRI portfolios.

One of the biggest potential headwinds to the electric vehicle revolution is the availability of battery materials – with the International Energy Agency forecasting that the energy sector's need for critical minerals could rise sixfold by 2040.

This, however, causes massive headaches concerning over-mining of a limited mineral resource, together with environmental and social impacts arising out of mining operations. These are particularly acute in cobalt, a vital element in the production of batteries, with around two-thirds of global supply of cobalt coming from the Democratic Republic of Congo, where worker protection is weak and informal artisanal mining is rife.

Umicore is a sustainability leader looking to tackle this issue. The company, based in Europe, have a considerable part of their business involved in the manufacturing of automotive catalysts that deliver emission reductions. The other main part of their business however is in the complex recycling of precious metals and the chemistry behind cathode materials required for EV batteries.

Umicore aims to be a world leader in battery recycling, which holds out the promise of reducing demand for newly mined cobalt.

The stock is held within the BMO Global Responsible Equity fund that sits in the EQ portfolios.

The company are also very open to engagement with their investors. Indeed, BMO have recently raised the issue of cobalt sourcing at meetings with Umicore Management. Clear commitments have been given to keep ethical cobalt sourcing as a high priority for the company, particularly focussing on improved human rights and the health and environmental impacts of its operations and supply chain.

Finally, Umicore have also made a commitment to being fully net zero in terms of its full operations by 2035.

One of the main resources that we must manage carefully is water. Effective management of water is vital, but it is also sensitive to the needs of the local environment it is serving.

Therefore, being able to manage water resources in a very bespoke way, depending on where you are in the world is vital.

Xylem Inc is a Fortune 1000 global water technology provider that offers a broad portfolio of products and solutions delivering positive water impact across many scenarios.

The stock is held by the Wheb Sustainability Fund in the Grayside SRI portfolios and the Impax Environmental Leaders Fund held within the EQ Portfolios.

Xylem solutions include the following.

- Water source: testing and monitoring water bodies, including those in high-risk areas.
- Transporting water: supporting the movement of water from source, or untreated wastewater, in an efficient manner, ensuring a lower carbon footprint
- Stormwater management: aiding communities to develop resilience to flooding and providing disaster relief
- Treatment: protecting the environment and safeguarding the health and safety of communities through the effective treatment of wastewater
- Efficient use of water: offering solutions to ensure less water is lost and less energy is required for users of wate

Treating and managing scarce water resources is a good example of the positive impact companies like Xylem are making. This is particularly true of 'non-revenue' water – water that has been treated but fails to reach the end user because of leaks, theft or poor metering. One in every six gallons of treated water is lost in this way in the US and in developing markets; non-revenue water losses range from 10-60%.