

There
is evidence
that investing
responsibly and
integrating ESG
factors is additive
to returns.

Responsible investment: here for good



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A few years ago, the world of sustainable investment exploded; I couldn't open a newspaper without seeing an article referencing the importance of ESG (Environmental, Social and Governance) and every fund manager's presentation suddenly included slides on how they consider ESG factors in their investment decisions.

Roll forward to today and the narrative looks quite different. Suddenly the media coverage surrounding responsible investment has taken an unfavourable stance (a quick search for ESG news and the first headline I come across is 'ESG exodus') and 'ESG funds' have experienced outflows in the billions over the past two years.

So, what has caused this shift in sentiment in a relatively short space of time?

Perhaps the stellar performance of the (traditional) energy sector in 2022 was enough to convince investors that oil trumps renewable energy. Perhaps the anti-ESG regulation in the United States is scaring investors. Perhaps investors are feeling overwhelmed by the amount of information out there and the ever-increasing reporting burden. It's difficult to know, but one thing is certain: the issues that responsible investment seeks to solve are certainly still prominent – it's hard to ignore climate change when you're sunbathing in the UK in early October!

Putting morality and 'feel good' aspects aside, responsible investment can be alpha generative. A strong investment process considers the full spectrum of strengths and the potential risks of an investment,

and ESG factor analysis is simply another lens through which one can analyse an investment. For example, an ESG-integrated process will identify that a company is not disposing of waste efficiently (environmental risk that could lead to reputational damage) or has a strong culture that leads to happier employees (social opportunity).

Companies are increasingly redirecting capital expenditure (CapEx) into pro-ESG areas like renewable energy, electric vehicles (EV), employee mental health etc. Taking the example of EV's, it is expected that automakers will spend around \$1.2 trillion through to 2030 switching their product lines towards EVs¹. Taking a backwards looking example, in 2022, global investment in the low-carbon energy transition equalled \$1.1 trillion² – a significant amount of capital in a single year. In turn, companies that have successfully reduced emissions faster than peers over the last five years have outperformed those in the worst quintile of emissions management by c.3% per annum³, demonstrating that this CapEx spending is additive to returns. When selecting the long-term winners, it's difficult to ignore these trends.

'Long term' is a phrase that is misrepresented a lot in the investment world. There is no hard definition for the phrase and every fund manager I've met has told me that they are a 'long-term investor'. Responsible investing is genuinely a long-term game because it's going to take years for many of these themes to play out, such as the renewable energy transition or addressing the male-to-female ratio on Boards. It is likely that there will be some short-term volatility and the gains will not be linear, but over the longer term these themes will likely be beneficial.

Source: ¹[Reuters.com: Automakers to double spending on EVs, batteries to \\$1.2 trillion by 2030](#). ²[Bloomberg L.P. Global Low-Carbon Energy Technology Investment Surges Past \\$1 Trillion for the First Time](#). ³[Schroders: Funding the future, investing in climate action](#).

The recent rise in the oil price saw some investors dampening their focus on environmental factors and increasing the carbon footprint of their portfolios in order to chase short term performance. Now it's worth noting that as a firm, Momentum is not opposed to owning carbon-intense portfolios but it's important that fund managers stick to their convictions, consistently follow a robust process, and our preference is that firms are engaging with companies to improve.

The final point that I will make to demonstrate why responsible investment is additive to returns is regulation. Yes, there are 'red states' in the United States (US) that are pushing anti-ESG policies, and the UK has backtracked on various green policies recently, but there is global regulation coming and even in the US we are seeing pro-ESG policies such as the SEC's sustainable disclosure regulation, rolled out in 2022. More broadly we are seeing an increasing number of guidelines, regulation and best practice initiatives being introduced in the UK, Europe, Asia and even in some Emerging Markets. When these policies are brought in, investors will want to own companies on the 'right' side of this change because there is a risk in holding those that have to spend huge amounts in a short time period in order to catch up.

All in all, investors do not have to give up returns in order to invest responsibly and in fact there is evidence that investing responsibly and integrating ESG factors is additive to returns. However, not all responsible investment strategies are created equal and alongside many other factors, one has to assess a fund manager's ability to implement a responsible investment strategy effectively.

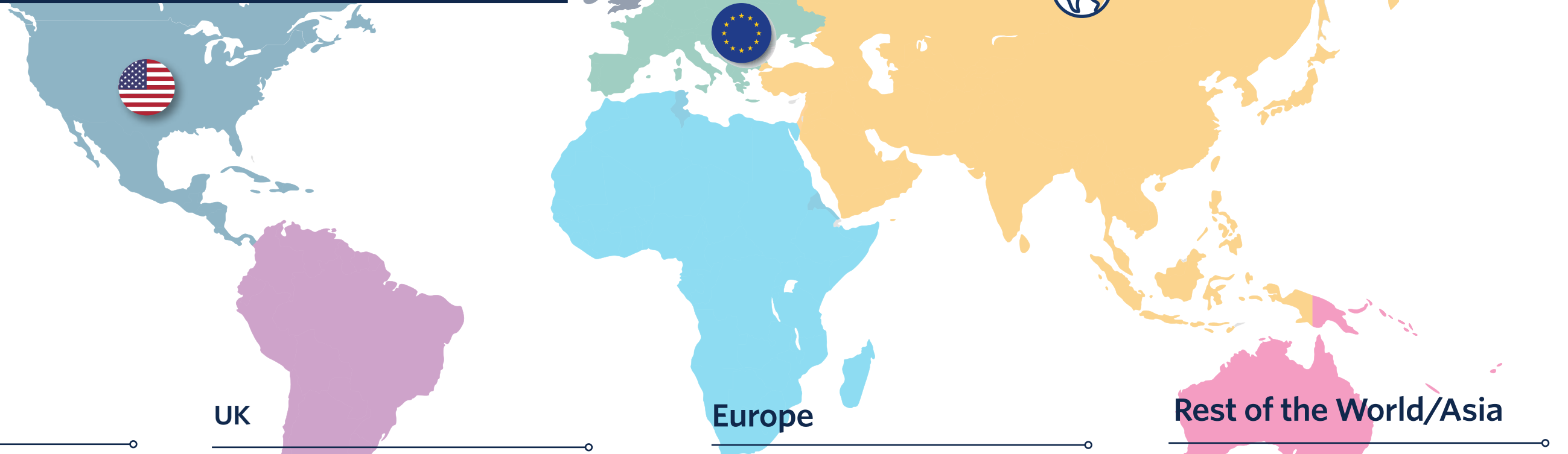


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Market Focus - 9 October 2023

- » Global equities fell 0.3% last week
- » Oil dramatically reversed its gains in recent weeks, with its worst weekly performance since the banking crisis turmoil in March
- » Brent crude fell 11.3% to \$84.58 a barrel
- » Gold fell 0.8% to \$1833.01 per ounce



US

- » US equities rose 0.5% last week
- » US House speaker Kevin McCarthy was ousted leaving a leadership vacuum and large uncertainty leading into the next government shutdown deadline of 17 November
- » The latest headline ISM manufacturing Index for September was better than expected at 49.0 (vs 47.6 expected), the highest since 2022
- » Headline payroll dramatically beat expectations (336k vs 170k expected) leading to further sell offs in bonds, as yields on 10-year treasuries reached post-2007 highs

UK

- » UK equities fell 1.5% last week
- » Prime Minister Rishi Sunak came under pressure following his announcement to cancel construction of the northern leg of the HS2 high-speed rail line, claiming potential savings of £36 billion as a result

Europe

- » European equities fell 1.1% last week
- » The unemployment rate was back at its recent low of 6.4% in August, which at the joint-lowest level since the formation of the single currency
- » Retail sales in August were worse than expected, with a -1.2% contraction (vs -0.5% expected)
- » Banque de France Governor François Villeroy de Galhau supported a less hawkish sentiment, stating he saw “no justification for an additional increase in the European Central Bank rates”

Rest of the World/Asia

- » Global emerging market equities fell 1.6%
- » Japanese equities fell 2.6%
- » Chinese equities fell 1.8% last week
- » Israeli Prime Minister Benjamin Netanyahu declared Israel “at war”, after militant group Hamas launched the biggest attack inside the nation in decades
- » Both the Reserve Bank of Australia and New Zealand decided to keep rates unchanged with much of the statements identical to the last

Market Summary - 9 October 2023

Cumulative returns					
Asset Class / Region	Currency	Week ending 6 October	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	0.5%	0.5%	13.2%	16.4%
United Kingdom	GBP	-1.5%	-1.5%	3.7%	10.9%
Continental Europe	EUR	-1.1%	-1.1%	8.0%	16.2%
Japan	JPY	-2.6%	-2.6%	22.5%	20.8%
Asia Pacific (ex Japan)	USD	-1.2%	-1.2%	-1.6%	6.2%
Australia	AUD	-1.3%	-1.3%	2.3%	6.3%
Global	USD	-0.3%	-0.3%	10.8%	16.7%
Emerging Markets Equities					
Emerging Europe	USD	-2.2%	-2.2%	12.4%	51.8%
Emerging Asia	USD	-1.0%	-1.0%	0.0%	7.1%
Emerging Latin America	USD	-5.9%	-5.9%	6.2%	3.1%
BRICs	USD	-1.7%	-1.7%	-2.8%	2.1%
China	USD	-1.8%	-1.8%	-9.0%	-0.3%
MENA countries	USD	-1.6%	-1.6%	-0.9%	-9.2%
South Africa	USD	-3.8%	-3.8%	-13.3%	-1.2%
India	USD	0.0%	0.0%	8.9%	13.3%
Global emerging markets	USD	-1.6%	-1.6%	0.2%	5.7%
Bonds					
US Treasuries	USD	-1.0%	-1.0%	-2.3%	-1.7%
US Treasuries (inflation protected)	USD	-1.4%	-1.4%	-2.3%	-0.7%
US Corporate (investment grade)	USD	-1.4%	-1.4%	-1.0%	1.8%
US High Yield	USD	-1.3%	-1.3%	4.5%	6.6%
UK Gilts	GBP	-1.4%	-1.4%	-5.6%	-0.6%
UK Corporate (investment grade)	GBP	-1.2%	-1.2%	0.0%	7.8%
Euro Government Bonds	EUR	-0.6%	-0.6%	-0.6%	-3.1%
Euro Corporate (investment grade)	EUR	-0.4%	-0.4%	1.9%	2.8%
Euro High Yield	EUR	-0.7%	-0.7%	5.3%	9.1%
Japanese Government	JPY	-0.6%	-0.6%	-1.0%	-3.3%
Australian Government	AUD	0.0%	0.0%	0.4%	-0.2%
Global Government Bonds	USD	-1.0%	-1.0%	-4.4%	-0.9%
Global Bonds	USD	-1.1%	-1.1%	-2.8%	1.0%
Global Convertible Bonds	USD	-1.1%	-1.1%	0.7%	5.1%
Emerging Market Bonds	USD	-2.4%	-2.4%	-2.6%	4.6%

Cumulative returns					
Asset Class / Region	Currency	Week ending 6 October	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	-1.8%	-1.8%	-4.6%	0.8%
Australian Property Securities	AUD	-0.5%	-0.5%	-2.6%	1.5%
Asia Property Securities	USD	-1.6%	-1.6%	-11.3%	-6.6%
Global Property Securities	USD	-1.8%	-1.8%	-5.3%	1.2%
Currencies					
Euro	USD	0.0%	0.0%	-1.2%	7.9%
UK Pound Sterling	USD	0.2%	0.2%	1.1%	9.8%
Japanese Yen	USD	0.1%	0.1%	-12.2%	-2.9%
Australian Dollar	USD	-1.0%	-1.0%	-6.5%	-0.5%
South African Rand	USD	-2.2%	-2.2%	-11.8%	-7.2%
Swiss Franc	USD	0.5%	0.5%	1.3%	8.8%
Chinese Yuan*	USD	0.0%	0.0%	-5.5%	-2.5%
Commodities & Alternatives					
Commodities	USD	-2.8%	-2.8%	-1.5%	-2.2%
Agricultural Commodities	USD	0.5%	0.5%	1.4%	3.3%
Oil	USD	-11.3%	-11.3%	-1.5%	-10.4%
Gold	USD	-0.8%	-0.8%	0.5%	7.1%

*Chinese Yuan data as at 28 September 2023.

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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