

Close Sustainable Balanced Portfolio Fund

Monthly fund manager update

JANUARY 2021



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MONTH IN FOCUS

The Close Sustainable Balanced Portfolio Fund fell -0.38% in January, taking the return since inception (02/11/2020) to the end of the year to 4.0%. The Fund marginally lagged the IA 40-85% shares sector over the month (-0.28%), however it is still very much in its infancy and the work continues to manage the new inflows into the strategy. As we noted last month, as the Fund grows we will continue to complete and top up our planned purchases, and gradually switch out of most collectives – which we have had to use for exposure in certain areas while the funds under management are relatively small – into direct holdings wherever possible. Thank you again to everyone for your support of the Fund thus far.

THOUGHTS FROM THE TEAM IN JANUARY

An interesting development related to sustainable investing came from the credit rating agencies in January, with S&P revising its risk assessment on many of the oil majors from 'Intermediate Risk' to 'Moderately High Risk'. S&P referred to the growing adoption of Environmental, Social, and Governance (ESG) investment mandates, resulting in a risk of divestment and capital market access becoming more costly for hydrocarbon producers. Consequently, S&P downgraded the outlook for many of the oil & gas producers. This encapsulates our view on the link between ESG-related risks and the cost of capital faced by firms.

An important political development in the US was the Democrats taking narrow control of the Senate. Such a slim lead in the Senate has cast doubt on Biden's ability to pass a \$2tn New Green Deal due to the 'filibuster' (a supermajority of 60 votes is required to end debate on most topics and move to a vote to pass legislation), however there is a possibility that at least parts of the New Green Deal can be passed via budget reconciliation – which only requires a simple majority. This, in theory, would allow the Democrats to push on with their carbon neutral goal by 2035. According to Citi, an asset manager, combining the net-zero commitments by countries across the globe, c.62% of global CO₂ emissions and c.75% of GDP would be covered under a carbon neutral goal.

TRADING ACTIVITY

We added to our emerging market (EM) exposure in January through a purchase of the **iShares MSCI Emerging Markets SRI ETF** (MSCI Fund ESG rating 'A'). We see increased upsides in our proprietary quantitative valuation tool across a range of EM regions, which has provided the necessary conviction for the trade. Higher commodity prices and a weakening US dollar provide a supportive backdrop for emerging markets, with Asian regions generally coping relatively well with Covid-19 cases too. This particular ETF follows a similar process to the Close Sustainable Balanced Portfolio Fund as it applies an ethical screen to exclude practices such as weapons, tobacco, fossil fuels and gambling, and it seeks companies with 'outstanding' ESG ratings.

STOCK OF THE MONTH: eBay

- eBay rose +12% in January. It was purchased on 24th December 2020 following an upgrade to its ESG rating earlier in the month from 'BBB' to 'A'.
- The upgrade was driven by the 'G' (governance) within ESG, with strong business ethics policies and procedures, including whistleblowing protection and employee training on ethical standards. While the 'E' (environmental) is not a large weighting in the overall ESG score for eBay, the company scores favourably to peers, with a 31% reduction in greenhouse gas emissions achieved between 2016-2019, and a 75% reduction target by 2030.
- eBay is the original online marketplace that connects buyers and sellers. Today, the company is the second largest online retailer outside of China, with 183m active buyers and 1.5bn live listings at any given time.
- The company has seen an acceleration in transacted volumes as Covid-19 has accelerated the shift of consumer spending to online and led to an increase in demand for 'stay-at-home' products.
- The new CEO, Jamie Lannone, has refocused the strategy to 'non-new in-season goods', launching a Certified Refurbished products offering and authentication services for products like trainers and watches.

IMPORTANT INFORMATION

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