

ACT Multi Asset Optimal Impact Strategy

Pension funds focus on Just Transition investment themes

- Most equity markets rose in May whilst bond markets were stable.
- Equity bucket performance benefitted from strong performance related to Planet oriented “Energy Transition” themes.
- The EU adopted an environmental and human rights sustainability due diligence law as well as stricter emissions rules whilst the US allocated further funding to support its carbon capture and storage industry.

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What is happening?

In May, most equity markets rallied whilst bond markets were stable. The EU adopted an environmental and human rights sustainability due diligence law setting mandatory obligations for large companies to address their negative impacts on human rights and the environment across their value chains. The commission also introduced new rules, as part of its “Fit for 55” roadmap to cut greenhouse gas (GHG) emissions by 55% by 2030, requiring 90% emissions reduction from trucks and buses by 2040. Meanwhile, the US Department of Energy allocates \$500 Million to infrastructure projects to transport captured carbon, aimed at supporting the US carbon capture and storage industry.

Positioning and performance:

	ACT MA OPTIMAL IMPACT		
	Dec-23	Apr-24	May-24
Net Equity	44,2%	50,3%	52,3%
Equities	44,2%	50,3%	52,3%
Equities derivatives	0,0%	0,0%	0,0%
Risk Mitigation Strategies	0,0%	0,0%	0,0%
Fixed Income	50,5%	47,8%	47,0%
Govies	17,8%	14,6%	13,9%
Bond Derivatives	0,4%	3,1%	8,7%
High Yield Credit	1,8%	1,8%	1,8%
Investment Grade	28,6%	27,8%	27,6%
Emerging Debt	2,4%	3,6%	3,6%
Diversification	0,0%	0,0%	0,0%
Cash & Money Market	5,2%	1,9%	0,7%

The performance of the equity bucket benefited from the strong gains of the Planet oriented “Energy Transition” themes with “Renewable Energy & Infrastructure” making a come-back due to the important rebound of companies providing renewable energy such as Brookfield Renewable and Nextera Energy as well the ongoing rally of suppliers such as Schneider Electric and within the “Energy Efficiency” theme (Nvidia, Infineon Technologies, First Solar). Within the “Resource Scarcity” themes, our “Water Ecosystems” was a positive contributor to performance whereas our “Recycling & Waste Reduction” theme had a slight negative contribution due to the correction of Republic Services following its AGM. Otherwise, our “Low Carbon Transport” theme provided a small positive contribution buoyed by the strong performance from Aptiv PLC following the announcement of its JV with Hyundai. Our People oriented impact themes delivered a slight positive contribution mostly from our “Empowerment” theme led by Microsoft and RELX as well as a marginal positive contribution from “Social Inclusion” due to American Tower, Erste Group Bank and Visa albeit offset by the correction of EM banks while our “Healthcare solutions” theme delivered a close to flat performance.

On the Fixed Income side, our Impact bond bucket was close to stable as investors integrated a less dramatic shift in monetary policy than previously expected. The appetite for Impact bonds was boosted by the busiest May on record for Green Bonds with issuance up +15% yoy while Social and Sustainable bond issuance slowed in May compared to April albeit still up +20% and +15% respectively compared to last year.*

In May, our equity exposure increased slightly despite the ongoing liquidation of some long-standing positions such as Capitec, Brambles and Ameresco whilst maintaining our allocation to Impact bonds thus our cash/monetary allocation decreased slightly.

Focus stock of the month:

Brookfield Renewable

is an independent renewables focused utilities company by generating and selling electricity from renewable and low-carbon sources and other sustainable solutions. Brookfield also manages a portfolio of other sustainable energy solutions including agricultural renewable natural gas assets and a recycling business. The company is looking to supply nuclear power plants, through its 17% stake in Westinghouse, which some may consider controversial but which Brookfield Renewable sees as a means to support the expansion of this low-carbon energy source. As such the company contributes to SDG 7 (Ensuring access to affordable, reliable, sustainable and modern energy for all), in particular 7.2 (Increasing substantially the share of renewable energy in the global energy mix by 2030), SDG 9 (Building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation) in particular 9.4 (Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes) and SDG 12 (To ensure sustainable consumption and production patterns).

Outlook

The dark clouds hanging over financial markets dissipated, and May was a strong month for multi-asset portfolios. Stock indices rose to new highs, and credit spreads tightened markedly as interest rates fell across the board. Cross-asset volatilities made a U-turn and collapsed to the lowest levels seen this year. This sharp return to optimism is primarily attributed to a stronger than expected earnings season. Q1 earnings surprised to the upside, showing margin resilience across sectors in the US, while Europe exhibited the strongest EPS revision ratio trajectory among major global regions. The second decisive element comforting financial markets in May was the assertion from the Fed’s Chair, Jerome Powell, that monetary policy is sufficiently restrictive, ruling out the possibility that the next policy move will be an interest rate hike. While the Fed needs “greater confidence” that inflation is converging back towards 2%, calling for patience, the dovish tone was enough to prevent interest rates from rising any further.

Alongside the growing number of investors which want their investments to fund companies that are as committed to a better world as they are to their bottom line, the recent focus in the Pension Fund world has been on investments strategies supporting the “Just Transition” thus contributing to ensuring that the transition to a greener economy is fair, inclusive, and equitable. As the world faces two great challenges in the need to transition to a low carbon economy and rising inequalities, many observers conclude that neither can be solved without addressing the other with capital markets having a major role to play in tackling these challenges. In the UK, the introduction of Just Transition Criteria by the National Advisory Board for Impact Investing provides a practical tool for guiding investors on incorporating these “just transition” principles in their investment strategies. Meanwhile several European pension funds are upscaling their commitment to Impact Investments to support the climate transition but with a growing awareness that this needs to be accompanied by certain social metrics such as increased employment, enhancement of the workforce and community well-being.**. With regards to AWF Act Multi Asset Optimal , we continue to address these same ongoing challenges by investing in companies and projects that provide the solutions towards decarbonisation through solutions including Renewables, Energy Efficiency, Green Buildings and Low Carbon Transport as well as investing in companies and projects that address the biggest barriers to equity and prosperity by focusing on companies and projects that provide a positive impact in terms of Healthcare solutions as well as companies promoting social inclusion or promoting empowerment within underserved communities.

*Bloomberg 07/06/2024

** "Impact Investing and the just transition" IPE & Impact Investor 04/06/2024

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