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TWO TIMES

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Awards 2020-2021

Best Ethical Discretionary
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Funds MPS Review 2021



Combatting Greenwash



Positive Outcomes



Stewardship

KING & SHAXSON
ethical investing



Contents

Welcome	2
Greenwashing and why it's a problem	3
Positive Investment Themes	4
Funds MPS	5
MSCI ESG Ratings – Fund MPS	5
King & Shaxson Cautious Portfolio Positive Theme Exposure (source MSCI)	5
King & Shaxson Balanced Portfolio Positive Theme Exposure (source MSCI)	6
King & Shaxson Income Portfolio Positive Theme Exposure (source MSCI)	6
King & Shaxson Growth Portfolio Positive Theme Exposure (source MSCI)	7
King & Shaxson Adventurous Portfolio Positive Theme Exposure (source MSCI)	7
The Importance of Stewardship	8
Environmental	9
Social	10
Governance	11
Additional Information	12
Disclaimer	12
MSCI Disclaimer	12
Notes to reader	12
Company Information	12

Welcome

In our last report we commented on our optimism as we returned to some normality after months of being confined to our homes. This has largely been true, with our towns and cities seeing a steady return of workers, whilst our restaurants, pubs and cinemas have seen a pick-up in activity.

As we head into the winter months there is still a high degree of uncertainty, and one thing that has become apparent is that the inevitable transition from pandemic to endemic means the virus will be with us for some time. Alongside this, the world has new issues to combat, such as crumbling supply chains and labour shortages.

Whilst 2020 saw an acceleration in genuine ESG and impact investing, sectors not associated with these positive investment styles have caught up, a trend we were anticipating. The more cyclical sectors such as Autos, Oil & Gas and Air Travel etc have been boosted by the pick-up in economic activity. Whilst this rotation has not favoured many sustainable and impact investments, we remain committed to our mandate of investing to achieve positive social and environmental outcomes whilst achieving competitive financial returns.

In recent weeks, the world's leaders have met in Glasgow at COP26 to hash out a plan to ensure we avoid the continued heating of our planet. The focus was on coal, cars, cash and trees; various degrees of pledges were outlined accompanied with the slogan 'keep 1.5 alive'.

Whilst progress has been made, the latest figures suggest we are still heading towards a warming of the globe by over 1.5 degrees. With countries such as China and India seeking to water down the commitments towards coal, it was no surprise the 1.5 degrees was not staying alive.

The growth of quantitative ESG data is helping companies align their business practices to tangible targets, in turn allowing investors to make better informed decisions. However, we cannot emphasise enough the importance of going beyond ESG data alone, and our qualitative analysis ensures we understand the materiality of ESG factors, as well as the direction of travel by a company.

As we head into the new year, we remain confident in the exposure we have to a number of key trends, such as e-mobility, better infrastructure, clean energy, good housing and sustainable finance to name but a few.

We would like to thank you for your continued support, and we look forward to another year ahead.

Warmest regards – The King & Shaxson Ethical Team

Greenwashing and why it's a problem

As defined by the Corporate Finance Institute (CFI), greenwashing *“is where a firm spends time and money advertising and marketing that their goods or services are environmentally friendly when, in fact, they are not”*.

Greenwashing is becoming an ever-increasing issue as it muddies the waters of information for investors and consumers. They can be misled into believing a company has certain environmental values or commitments, but in reality, these may not be as perceived.

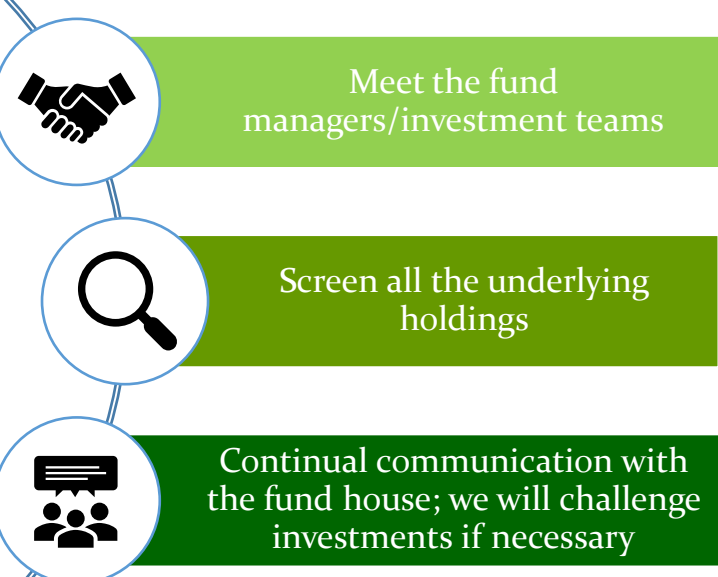
This makes it harder for people to have an accurate view of how “green” a company really is, and means people have to work harder to disentangle the truth about environmental practices from just targeted marketing.

The problem of greenwashing isn't just constrained to company level; it can also be an issue that applies in the case of collective investments, where funds are labelled as ‘ethical’ or ‘sustainable’ when the underlying holdings don't consistently reflect that.

At King & Shaxson Ethical, we focus on ensuring our investment process avoids the pitfalls of mislabelling, ensuring the values of our investors are met.

Our thorough in-house research, coupled with third party ESG data, ensures we scrutinise companies ESG credentials. Whilst our ‘under the bonnet’ screen of all holdings within a fund ensures our model portfolios avoid any potential greenwash.

Our three-step approach for investing into funds is outlined below:



Positive Investment Themes

When investing into a portfolio of funds, there can at times be hundreds of underlying companies. Whilst this is positive for diversification, it doesn't necessarily make it easy for investors to understand the positive outcomes of their invested capital.

This section will look at each portfolio holistically against a number of positive investment themes, such as alternative energy, sustainable water, or green buildings, to name but a few. We have taken third party data from MSCI and used their thirteen 'Sustainable Impact Metrics', which cover environmental and social impact. Many of the themes have obvious alignments with the United Nations Sustainable Development goals, meaning clients invested capital is supporting a number of these goals.

The four themes and thirteen categories are highlighted below:

Impact	Theme	Category
Environment	Climate Change	Alternative Energy, Energy Efficiency, Green Building
	Natural Capital	Sustainable Water, Pollution prevention & control, Sustainable agriculture
Social	Basic Needs	Nutrition, Major Disease Treatment, Sanitation, Affordable Housing
	Empowerment	SME Finance, Education, Connectivity

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MSCI's analysis focuses on the underlying company's revenue from products of services that align to the above categories. It is important to note that MSCI's ESG coverage of the funds underlying holdings is incomplete.

As a result, where there was clear alignment to the impact themes above, we have inferred this information from reliable sources.

The next few pages will show the breakdown of each portfolio based on MSCI's thirteen themes (©2021 MSCI ESG Research LLC. Reproduced by Permission), with some commentary on the top 3 in the portfolio. For comparison, we have included an all-world ESG equity and corporate bond customised benchmark that reflects the general asset allocation of each portfolio.

Funds MPS

The following portfolios combine collective investments only. All funds are screened using internal and external resources. The negative and positive screen applied is laid out in the product brochure and online via the website.

MSCI ESG Ratings – Fund MPS

The methodology that MSCI use to reach an ESG rating includes getting a weighted average ESG quality score from the underlying holdings, comprised of a combination of carbon risk, reputational risk and governance risk. All of our Funds MPS receive an AA ESG quality score, gaining them the title of “leaders” compared to the benchmark ESG quality score.

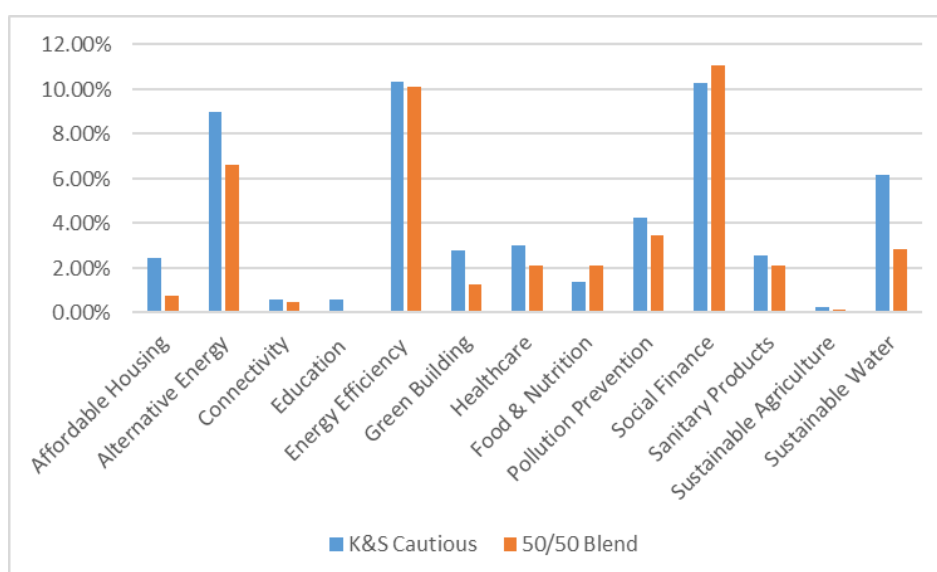


CCC	B	BB	BBB	A	AA	AAA
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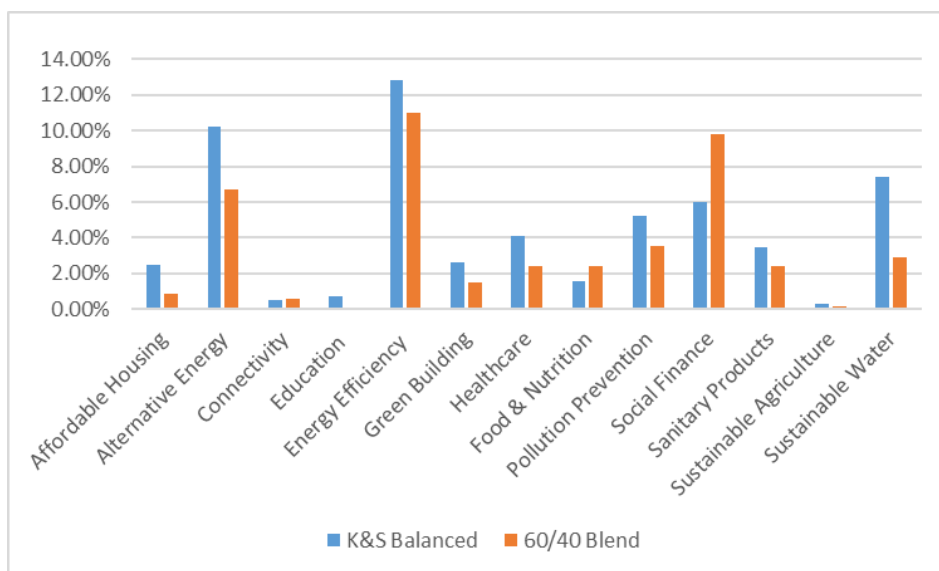
King & Shaxson Cautious Portfolio Positive Theme Exposure (source MSCI)

Two of the top three categories within this portfolio fall under the ‘Climate Change’ theme, whilst the other falls under ‘Empowerment’. The largest category is ‘Energy Efficiency’ at just over 10%, which includes biofuels, batteries, energy storage, solar, wind, hydro etc. The second largest category is ‘Social Finance’ at just over 10%, which includes revenue exposure to empowering underserved people in society. Whilst the third largest category ‘Alternative Energy’ at 9%, includes smart grids, electric/hybrid vehicles, clean transport infrastructure, insulation, LED lighting etc.



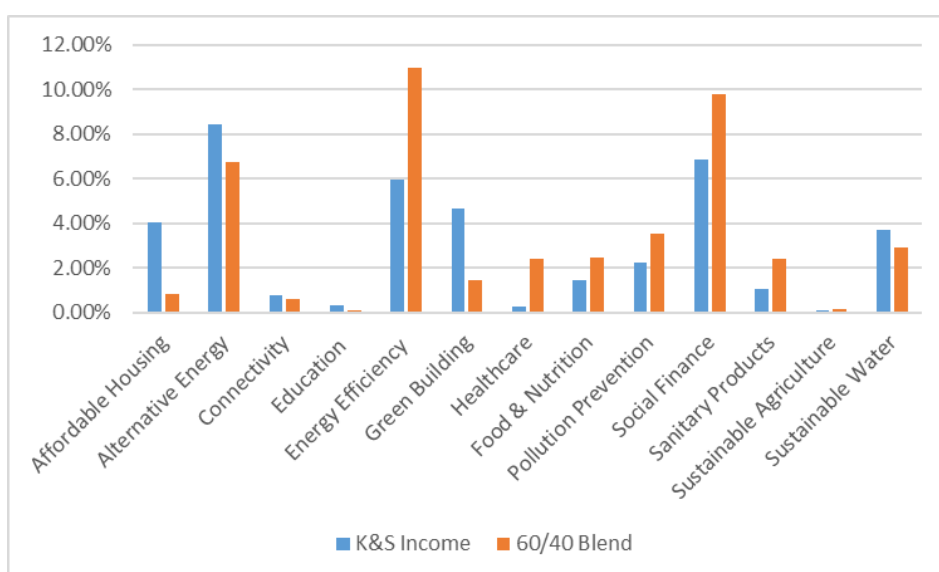
King & Shaxson Balanced Portfolio Positive Theme Exposure (source MSCI)

The top three categories within this portfolio fall under the 'Climate Change' theme. The largest category is 'Energy Efficiency' at just under 13%, this includes smart grids, electric/hybrid vehicles, clean transport infrastructure, insulation, LED lighting etc. The second highest category is 'Alternative Energy' at 10%, which includes biofuels, batteries, energy storage, solar, wind, hydro etc. Whilst the third largest category is 'Sustainable Water' at just over 7%, which includes exposure to products or services which tackle issues such as water scarcity and water quality.



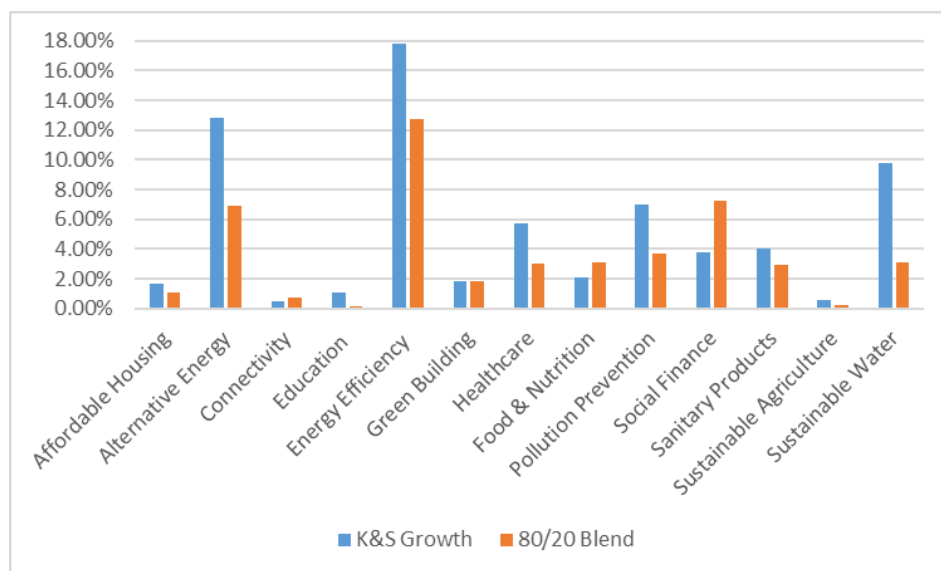
King & Shaxson Income Portfolio Positive Theme Exposure (source MSCI)

Two of the top three categories within this portfolio fall under the 'Climate Change' theme, whilst the other falls under 'Empowerment'. The largest category is 'Alternative Energy' at 8.5%, which includes biofuels, batteries, energy storage, solar, wind, hydro etc. The second largest category is 'Social Finance' at just over 6.5%, which includes revenue exposure to empowering underserved people in society. Whilst the third largest category 'Energy Efficiency' at 6%, includes smart grids, electric/hybrid vehicles, clean transport infrastructure, insulation, LED lighting etc.



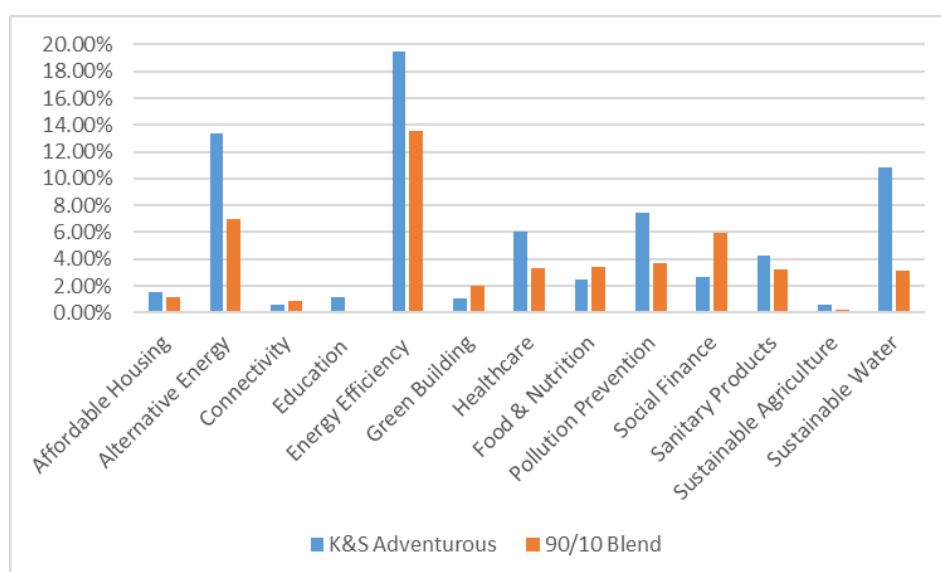
King & Shaxson Growth Portfolio Positive Theme Exposure (source MSCI)

The top three categories within this portfolio fall under the 'Climate Change' theme. The largest category is 'Energy Efficiency' at 18%, which includes smart grids, electric/hybrid vehicles, clean transport infrastructure, insulation, LED lighting etc. The second largest is 'Alternative Energy' at 13%, which includes biofuels, batteries, energy storage, solar, wind, hydro etc. Whilst the third largest category is 'Sustainable Water' at 10%, which includes exposure to products or services which tackle issues such as water scarcity and water quality.



King & Shaxson Adventurous Portfolio Positive Theme Exposure (source MSCI)

The top three categories within this portfolio fall under the 'Climate Change' theme. The largest category is 'Energy Efficiency' at 19.5%, this includes smart grids, electric/hybrid vehicles, clean transport infrastructure, insulation, LED lighting etc. The second highest category is 'Alternative Energy' at 13.5%, which includes biofuels, batteries, energy storage, solar, wind, hydro etc. Whilst the third largest category is 'Sustainable Water' at just under 11%, which includes exposure to products or services which tackle issues such as water scarcity and water quality.





The Importance of Stewardship

The PRI define stewardship as *“the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients’ and beneficiaries’ interests depend.”*

A large number of fund houses within the model portfolios take an active role in engaging with the underlying companies. Through stewardship they can help ensure funds stay on track with their ESG commitments, ensuring that the best interests of investors are met.

Engagement with companies during Covid-19 lockdowns has been especially important, including on how to manage social concerns over work from home measures, job losses and helping employees cope with the ‘new normal’.

Fund houses can choose to engage with companies with the intention to monitor and advise in order to influence behaviour. However, in some cases further action may be taken if a holding acts in a way that doesn’t meet particular standards. For example, Gravis Capital Management divested a holding this year in their Clean Energy fund (a core holding in models) on environmental grounds; the company at hand acquired a pulverised coal plant as part of an acquisition of a larger portfolio of assets which contravened Gravis’ Responsible Investment Statement.

The next few pages will give some specific examples of stewardship by fund houses (for which we hold their funds in our model portfolios) arranged by ESG themes. The heading of each page gives some examples of engagement topics.

E NVIRONMENTAL

Janus Henderson

Janus Henderson has been engaging with companies on their sustainability reporting in an attempt to ensure an increase in both the quality and quantity of companies' reporting. A detailed conversation with **Evoqua** (water technology company) with a focus on water treatment) resulted in commendations of their current reporting system and advice about improvements in quantitative measurements. Since then, some of the recommendations made have been successfully implemented by Evoqua.

This fund house has also been taking an active approach in engaging with holdings who seek their guidance and expertise. An example of this is **Walker & Dunlop** (an American commercial real estate financing company), who asked Janus Henderson how they could improve their sustainability reporting. They received commendations on the improvements they had already implemented and their plans to report on carbon emissions. Alongside this, Janus Henderson offered the company feedback on additional areas that they could consider reporting on, including 'green' revenues.

WHEB

WHEB has been communicating with **China Everbright Environment Group** (a Hong Kong company that specialises in environmental resource management) for two years over their carbon emissions reduction target. Their engagement has involved voting against Board Directors who haven't taken strong enough action on emissions, as well as writing to senior executives emphasising the need for ambitious net-zero carbon targets. WHEB has reported that the company has been responsive to their engagement; they've begun trailing plastic waste recovery at some facilities.

M&G

An example of M&G's stewardship is their encouragement of **ALK-Abelló** (global leader in allergy immunotherapy) to improve its sustainability targets and disclosures: suggesting clearer management of greenhouse gas emissions and broader sustainability reporting. Discussions are ongoing, as well as continual contact as the company develops the disclosure around its sustainability strategy.



SOCIAL

M&G

M&G asked their holdings 2 specific questions related to Covid-19 response: an update on efforts to combat the impact of the coronavirus crisis on various stakeholders, and how they balanced wellbeing of their workforce with issues like executive compensation and shareholder returns. They received responses from 80% of holdings and were pleased to observe a strong alignment between actions taken by companies and their mission statements.

For example, **Brambles** (an Australian logistics company with a focus on sustainability) took employees from areas of the business where revenue was severely affected and redeployed them in more profitable parts of the business to protect jobs and avoid redundancies.

Another example is **Illumina** (a global leader in genomics) who offered employees balancing work and family care obligations the benefit of 'Compassion and Care Time Off', where they gave 100% of pay for up to 30 days.

Montanaro

Montanaro chose to enquire about the access and affordability of **Dexcom's** products (monitoring systems for diabetes management). Dexcom answered the enquiry by explaining that it is a strategic aim of theirs to achieve production efficiencies that will lower costs and therefore increase accessibility in underserved communities. Over a million additional patients have been given access to Dexcom technology over the last year due to these efforts.

Elsewhere, Montanaro wanted to check in with **Xylem** (US water technologies business) to ensure they were integrating diversity considerations into running their business. Conversations were had about Xylem's diversity goals: including achieving 50% gender parity among Senior Leadership Teams globally by 2025, and working to increase the inflow of underprivileged black students into certain university courses. As a result, Montanaro increased Xylem's ESG checklist score to reflect greater confidence in their ESG profile.



G_{OVERNANCE}

Janus Henderson

Janus Henderson has been in continual dialogue with **Novartis** (a global healthcare company based in Switzerland) surrounding the companies approaches to ESG issues. After accusations of unethical behaviour in 2018, the company has made some significant changes with regard to its corporate culture, including a switch to a principles-based ethics policy so it is easier for staff to remember and follow. Janus Henderson reported that these discussions have provided reassurance that the company is continuing to make progress since their previous meeting. This is a great example of how stewardship and active engagement has positive outcomes for helping tackle company-specific ESG issues.

Montanaro

Following a recommendation made by their proxy advisor, Montanaro engaged with **SolarEdge Technologies** (a company who make solar products more energy efficient) about their concerns surrounding the reappointment of certain board members due to tenure length and lack of diversity. After engaging in discussions and receiving sufficient explanation from SolarEdge, they opted in support of the incumbent directors but are continually monitoring the situation.



Additional Information

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Notes to reader

Information obtained in this publication has been taken from reliable sources. In most cases, the statistics and comments used are from the various publications from the mentioned companies, with the data being correct at the time of construction.

With thanks to the fund houses, whose material has contributed to the stewardship section of this report. No copyright intended.

Company Information

King & Shaxson Asset Management Limited (Reg. No. 3870667) has its registered office at 1st floor, Cutlers Court, 115 Houndsditch, London, EC3A 7BR. The Company is registered in England and Wales and is part of the PhillipCapital Group.

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