

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – January 2025

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Market Commentary

A narrow rally focused on Artificial Intelligence (AI) has been enough to sustain the equity bull market rally over the last couple of years. However, January saw a threat emerge in the introduction of Chinas DeepSeek's AI model, in what has been widely described as the 'Sputnik moment' in the global AI race (referring to the space race of the 20th century). It came as a shock to markets and challenged the lofty expectations baked into a number of stocks, and indeed investors fled tech and AI exposed names on the news. However, as is always the case with markets, the first reaction was a kneejerk and the dust soon settled and the true consequences are still being analysed.

Those expected to spend large amounts on AI focused Capex fared better, given the potential for lower spend for the same or better output. Those down the supply chain or the so-called 'picks and shovel makers' who were expected to benefit from the AI build out suffered; semiconductors, semiconductor equipment and infrastructure were hit particularly hard.

A leading semi-conductor index was largely flat for the month of January, but at one point, this was up just over 10% at its peak. The likes of Nvidia shed over 10% in dollar terms, whilst ASML toppled over 13% in local currency at one point. A strong earnings announcement for the latter name saw the stock end the month 6% in the green. Nonetheless, a lot of damage was done. Industrial names associated with electrification and data centre build out such as Schnieder Electric, ABB or Siemens were also sold aggressively, but in a similar vein, they still posted positive returns for the month given the strong start to the year and subsequent rebound.

In terms of underlying fund returns, the above moves were most felt in funds exposed to the electrification and energy transition themes, with the likes of RobecoSAM Smart energy fund returning +1.48% for the month after being up over 9% following the early January rally.

Some of the worst hit companies were those operating within the electricity generation sectors, given the question marks over the power needs given the potential efficiency savings the new technology can bring. Portfolios were partly shielded from the energy related sell off given a number of these names are screened from portfolios due to the fossil fuel exposure within their energy mix.

Given the rapid rise in electricity demand from AI, a lot of the energy demand was to be met by non-renewable sources, predominantly natural gas. For example, in Virginia, North Carolina, South Carolina, and Georgia alone, utilities are planning on building more than

20,000 MW of natural gas power plants by 2040 (source Energy Economics and Financial Analysis).

Many tech company's environmental pledges are based on purchasing renewable energy certificates, rather than actually seeking to address the energy mix. As a result, we still see the growth of renewables intact, given the need for energy security, growing electricity demand (regardless of AI) and the need to displace fossil fuels to meet this demand.

Despite the wobble created from the AI concerns, equity market returns were positive for the months, with equity returns showing signs of a broadening out as we started the year, although January does have a habit of wrong-footing investors.

Healthcare was a standout performer in the month with a leading global health index returning just over 7% in sterling terms, which benefited portfolios healthcare exposure, with the Polar capital Healthcare Opportunities fund returning 4.50% for the month.

We did see bond yields fall as investors sought some safety from the equity market volatility, with the Wellington Global Impact Bond fund return of 0.56%, which was a similar return to Gilt funds of a similar duration. Where held, portfolios government debt exposure, which is of longer duration, returned 1.11%.

Portfolios infrastructure exposure lagged once again, and continues to face selling pressure, trading at even wider discounts to their Net Asset Values (NAVs). The asset class offers exposure to operational assets that are having a positive impact on climate outcomes given they are largely owners and operators of renewable assets, but also assets such as water and waste treatment. Given our concerns, we have met in the last few weeks with leading managers in this space, and we will update investors in due course.

Model Portfolio Transactions in the Month

There were no changes to portfolios during the month.

Performance

SAS MPS	Jan 2025
Defensive	1.17%
Cautious	1.79%
Income	0.30%
Balanced	2.12%
Growth	3.01%
Adventurous	3.31%

MPS Stock pick feature:

Axian Telecom, is a prominent player in Africa's digital transformation, enabling increased telecommunication services for underserved consumers. Despite progress, the continent still grapples with insufficient digital coverage and accessibility. In 2023, just 37% of Africa's population had internet access, significantly below the global average of 67%, and a substantial urban/rural divide in internet usage persists, with urban residents more than twice as likely to be online. The company's comprehensive approach can help bridge the digital

divide. Its services, which encompass mobile and fixed networks as well as vital telecommunications infrastructure, are tailored to each country's specific needs. In Madagascar, the company has increased coverage and developed the country's first baking platform, MVola, melding technology and finance to accelerate societal inclusion.

Axian Telecom's operations in Tanzania, where it has more than a 30% market share, contribute significantly to the company's revenues. The World Bank found significant positive effects for Tanzanians after three or more years of internet use; specifically, expanded economic opportunities, which reduced extreme poverty by 7%, and an 8% increase in labour force participation.

Fund House Meetings:

During a very busy January we met with Rathbones, Skagen, Martin Currie, Abdrn, Alquity, Fisher Investments, Aegon, Lord Abbett, Foresight, Montanaro, & T Rowe Price.

Ethical News

ALDI SOUTH GROUP has become the first food retailer globally to include the Marine Stewardship Council (MSC) new Improvement Program in its sourcing policy. The Program was launched last October to offer fisheries support and incentives to become more sustainable, provided they make measurable improvements over a five-year period. It has been designed to support fisheries worldwide, regardless of their size or location to make the changes necessary for them to meet the MSC Fisheries Standard. This initiative complements existing Fishery Improvement Projects (FIPs), which operate globally. While many businesses already source seafood from FIPs as part of their sustainable sourcing commitments, the effectiveness and impact of these projects can vary significantly. Through its Improvement Program, the MSC will provide stronger assurance that fisheries' improvements are verified and timely. The Program will recognise fisheries from the most effective FIPs, as well as other engaged fisheries, with the aim that they become able to enter full assessment against the MSC Fisheries Standard within five years.

Amazon has placed its **largest ever order for electric trucks**, purchasing over 200 eActros 600 vehicles from Daimler Truck. The trucks will join Amazon's existing transportation network to transport an expected 350 million packages a year across high mileage routes throughout Germany and the UK.

The BBC has reportedly reached an 'important milestone', as it has **set out a net zero transition plan** to commit to a low-carbon future. The strategy has three pillars aligned with its Value-for-All strategy: Nature Positive, Net Zero and People Positive. The plan includes a range of strategies, from switching to electric vehicles and reducing business travel, to implementing hydrogen and battery-powered generators for outdoor broadcasts. This approach aligns with the latest climate science and focuses on eliminating emissions at their source rather than relying heavily on offsetting.

Belfast Harbor has announced it will invest more than £300 million in infrastructure over next five years to improve and regenerate areas across the port and harbour estate, with the objective of accelerating to net zero. In addition to a new deepwater quay designed to accommodate the world's largest cruise vessels, the project will expand the port's offshore wind turbine assembly and installation capabilities, which will put Belfast Harbour at the forefront of the clean energy transition. Other projects include installing sustainability powered cranes and deploying autonomous vehicles.

Microsoft secured a deal to restore the amazon rainforest through an acquisition of roughly **\$200mn worth of carbon credits**. Microsoft aim to offset the artificial-intelligence

driven surge in greenhouse gas emissions with nature-based solutions, particularly parts of Brazil's Amazon and Atlantic forests.

Climate change has been deemed a major factor behind the devastating LA fires by scientists. Using models, the World Weather Attribution found the fast-spreading destructive fires that claimed around 30 lives and over 10,000 homes were driven by hot and dry conditions, made about 35% more likely due to climate change.

Winners & Losers

Winning this month was Kelvinside Academy student Rebecca Young, who when wanting to help members of her community facing homelessness designed a solar-powered sleeping bag. With the assistance of engineering firm Thales, Young entered the Primary Engineer MacRobert competition as one of 70,000 designs and won the Commendation Medal. Thales hopes that with Young's success in the competition that the product can now be further enhanced and patented for production.

Losing this month the makers of fossil fuel heating systems. A ban on installation of fossil fuel heating systems such as boilers in new-build homes has come into force on the Isle of Man. The legislation is being implemented through the Climate Change Act 2021, as part of the island's Net Zero carbon emissions initiative. Jersey will do the same from Jan 2026.

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