NLP Financial Management Ltd

Investment Team Update - *Sustainable Investing: Providing Resilience in Uncertain Times*

10 July 2020

At the turn of the year sustainability was at the forefront of political and corporate discussions, which looked to drive a permanent shift in decision making for the upcoming decade and beyond. Governments worldwide are now working to reduce the pace of change and construct a framework for providing solutions to the biggest challenges facing our society. Sustainability has been rapidly picking up momentum in the investment industry, with an increased emphasis of asset managers on the integration of ESG into the investment process. The COVID-19 crisis has gripped economies globally and led market participants into a period of mass hysteria. The initial fear was that this would slow the move to sustainable investing, yet the results thus far suggest the opposite. Sustainable funds have exhibited resilience during the outbreak of the pandemic and subsequent market crash. A Morningstar report shows that in the first quarter of 2020 the global sustainable funds universe attracted over 45 billion dollars, compared with an outflow of over 380 billion dollars for the overall fund universe.

The performance of sustainable indices has also been relatively strong compared to their peers, with a study from BlackRock showing 94% of sustainable indices have outperformed their broad market counterparts for Q1 2020. Beyond indices, Morningstar report that open-ended funds that score in the top 10% of Morningstar's sustainability ratings have significantly outperformed low-scoring peers. We found that investing in ESG (environment, society, governance) leaders versus the traditional "old economy" stocks can not only generate excess returns, but that this can be achieved with lower volatility.

There are a number of contributing factors to the outperformance of sustainable investing in recent years, and whilst COVID-19 has caused unforeseen disruptions to the global economy, we believe that it has actually accelerated the tailwinds for sustainability. The oil price has shown wild swings in recent months and fell to the lowest on record at one point during the crisis, putting pressure on the oil companies. The majority of sustainable funds will avoid investing in these companies due to the harmful nature of the industry, and the Sustainability portfolio has benefited from having zero exposure to oil & gas. In addition, the sustainable investing world has been able to display resilience in the face of economic turmoil as some companies are providing solutions to the challenges posed by this crisis, with an overweight to healthcare and technology stocks. This portfolio will inherently have a bias to companies with higher quality balance sheets, more conservative accounting practices and a fairer treatment of staff, which will allow them to survive the crisis and thrive as we come out of it.

At NLP Financial Management we believe that the impetus remains firmly with the industries and companies which continue to invest in positive change. We launched our Sustainability Portfolio almost two years ago to give investors the opportunity to fund these solutions personally. Despite the difficult start to the year, the portfolio fared much better on the downside versus the market and has outperformed on the upside, losing only 0.27% for the year to the end of June versus -17.7% for the wider market, after performing strongly in 2019. We are confident that there will remain significant tailwinds for sustainable businesses for the foreseeable future and believe the direction of travel for investing in a sustainable manner is gathering significant momentum, even in the face of the disruptions caused by COVID-19.

Charlie McCann - On behalf of the Investment Committee

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