CAMRADATA
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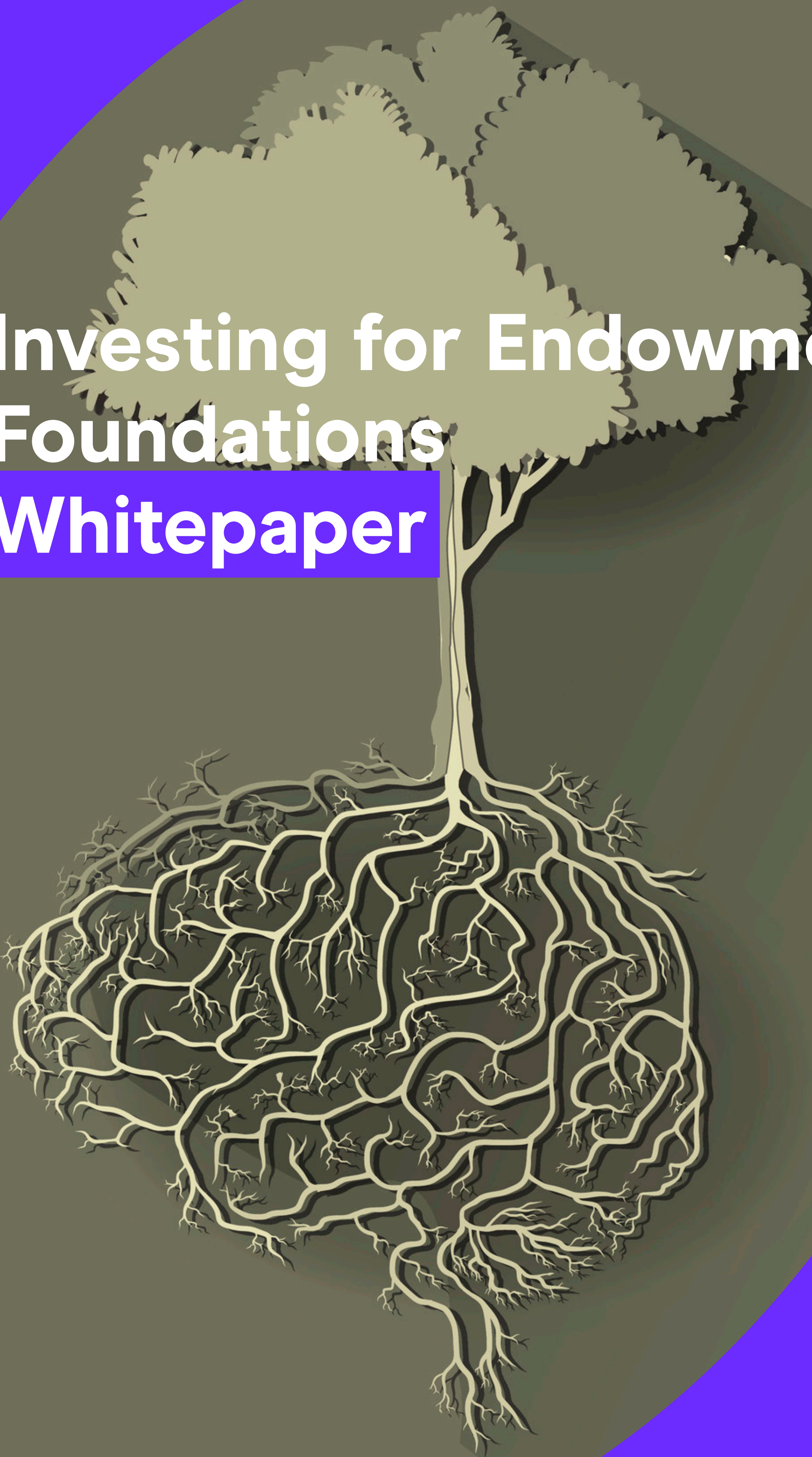
Investing for Endowments & Foundations

Whitepaper



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Contents

Welcome to CAMRADATA's Investing for Endowments & Foundations Whitepaper

More than any other institutional investor group, the size, shape and objectives of the entities within the endowment, foundation, and general not-for-profit sector is vast, rich and varied.

Not only do their asset pools span small to substantial, but how they are used and operated depends on each entity's outlook and function.

Many organisations may also often be run by teams who are not well-versed in portfolio management and setting of long-term investment objectives. Nor are they au fait with the expectations of costs and outcomes that sit at the front-of-mind of many other institutional investors, as fundraising and "money out" takes up much of the governance budget.

Yet investment and solid portfolio construction are vital tools that can help this sector achieve its goals and support a growing number of beneficiaries and causes.

Ensuring sustainability of mission, along with resiliency of assets for future distribution, is key for Endowments & Foundations and not-for-profit boards generally – this whitepaper will investigate how this can all be achieved and what the outcomes could be.

Meet the Team

Natasha Silva
Managing Director, Client Relations

Amy Richardson
Managing Director, Business Development

Orin Ferguson
Associate, Business Development

Sarah Northwood
Marketing and Events Coordinator

Dorota Madajczyk
Senior Associate, CRM & Circulation Administrator

Investing for Endowments & Foundations Roundtable

The CAMRADATA Investing for Endowments & Foundations Roundtable took place in July 2024

Endowments, foundations and charities are created to do good in society, but now there's a greater focus than ever on ensuring their financial assets make a positive impact too.

Investing is not necessarily the primary function of these organisations, but making the right financial calls could help shore up a not-for-profit for years to come.

Furthermore, entities within this sphere vary widely by size, meaning that different strategies may be more appropriate depending on the amount of assets an organisation can dedicate to investing.

Linked to that is how endowments, foundations and not-for-profits analyse their risk budgets and ensure that their investment portfolios match the ethics of their organisation.

Participants at the CAMRADATA Investing for Endowments and Foundations roundtable agreed that all not-for-profit organisations needed to focus on their investments, as the impact may be as great, if not greater, than the impact an organisation can make through its own operations.

"If you're not paying attention to your investment strategy, there's a risk that you're not maximising the impact that you could have," said Rennie Hoare, partner and head of philanthropy at C Hoare and Co, a twelfth-generation family-run institution.

"I would say there has been a rise in the number of discussions about impact investing, which I would describe as an investment that has a market rate of return as well as an intentional environmental or social return embedded into it."

Other participants agreed that there has been a shift within the not-for-profit sector in terms of how it approaches financial assets and investments.

This approach may differ depending on whether the organisation is small and relatively inexperienced in terms of investment strategy, or whether it is a philanthropic giant.

> *"A trend I suspect will happen, and we are starting to see it, will be the range of options for smaller endowments and foundations will expand and reflect what larger players have. That's partly due to the likes of outsourced chief investment officer (OCIO) expertise."*

"There has been a shift in the past 10 years of adding more sophistication into setting investment strategy and making sure that opportunities are not left on the table," said Matt Hurshman, associate partner at Aon.

"Organisations are mindful that their risks are properly being managed, which is extremely important."

The range in size, scale and sophistication of UK foundations and endowments was considered by the panel to be vast.

Analysis by Anthony Webb, associate director at Isio, suggested that of the 300 or so such organisations in the UK, around 45-50 per cent had £100 million in assets, with a significant tail of those with under £10 million.

Beyond this, there is another roughly 45 per cent ranging from £100 million to £500 million and a remaining five per cent each of those between £500 million to £1 billion, and then over £1 billion.

Webb said that this disparate group had equally disparate investment strategies in many cases, with some holding their assets entirely in cash or in a single fund, through to those invested in complex segregated alpha-focused mandates.

"A trend I suspect will happen, and we are starting to see it, will be the range of options for smaller endowments and foundations will expand and reflect what larger players have," he said.

"That's partly due to the likes of outsourced chief investment officer (OCIO) expertise."

Seeking guidance

Embracing external help was a theme that came up frequently during the roundtable discussion, especially as not-for-profit organisations are often not investment experts – nor are they trying to be.

With many not-for-profit organisations in the UK being relatively small, it can feel like a difficult decision knowing what proportion of reserves to invest.

"We see a bit of a knowledge gap in a lot of charities in terms of knowing the amount they can allocate from their reserves into long-term investments and what they need to keep from a cashflow perspective," said Fraser Weir, senior investment consultant, XPS Investment.

"Our role is to help charities realise at what point they can change those reserves from cash into something that could be longer term, and make sure that their investment helps further their purpose."

Once a not-for-profit knows what it can invest, it then needs to decide where to allocate its investment capital.

Several of the roundtable participants acknowledged that the way endowments and foundations were investing had changed since the 2008/09 Global Financial Crisis.

"Over the last 10-15 years we've seen our clients move from a more UK-dominated asset allocation to a global asset allocation," said Scott Harris, EMEA OCIO lead for family offices, endowments and foundations at BlackRock.

"We've also seen our OCIO endowment clients increasing their allocation to private markets, following the US style endowment model where clients are seeking higher returns, more diversification and are happy to have investments that are less liquid."

Michael Topley, a director at Barclays Private Bank, agreed there had been a move away from the UK to a more global outlook in the past decade, but added there had been other important shifts.

"The other change is moving away from income," he said.

"While some of the smaller charities may retain that income focus, we've found most have moved to a total return perspective and have changed their constitution so they can draw down their capital, and not just their income. "And then there's also the fact that everyone has moved to become sustainable."

Sustainable evolution

While Topley welcomed the ethical values of investing sustainably, he acknowledged its potential drawbacks.

He said: "It's great that charities want to do this, but I think there is a huge risk associated with moving to a sustainable approach if not done properly. While it might be a controversial opinion, this is because thematic investing can be a poor way of managing money as you embed top-down biases into a portfolio, leading you to try to find a company that will fit a particular theme at the expense of an investment opportunity that may provide a higher return."

It was also recognised that notionally sustainable themes can have second-order impacts.

For instance, electric vehicles might be perceived as more environmentally friendly than their combustion engine cousins, but their batteries rely heavily on raw materials that must be mined.

Furthermore, China now dominates the electric vehicle supply chain, making ESG claims harder to substantiate, whilst at the same time leading to market overcapacity to the potential detriment of investment returns.

Therefore, some participants welcomed the likes of the UK's Sustainability Disclosure Requirements, which may help investors ascertain what is a truly sustainable investment.

And some championed the evolution of sustainable investment language, which means that many charities now can articulate what they want to do with their investment capital, and also realised that it was important for their portfolios to reflect the aims of their organisation.

"I've sat on charity boards and many have realised over the last decade that they can't simply say they support, for example, human rights and then ignore it within their portfolio," said Victoria Hoskins, head of charities at Greenbank, part of Rathbones.

"So that's been a really good change that has led to many discussions, but as definitions have become more complex, it has also become very important for the industry to try to simplify and have very specific criteria for impact."

Hoskins noted that some charities wanted to make an impact with their investments but may feel constrained by their available reserves.

"The risk budget is such an important discussion and we're having many more in-depth discussions with trustees, some of whom recognise they had not fully thought about it previously," she added.

Even though there is a greater collective knowledge about sustainable investments and more regulation aimed at ensuring investments are correctly categorised, investors still needed to be discerning about where they invest their capital.

Mark Parry, head of the manager research team at Barnett Waddingham, noted that recent research by his firm had emphasised this point.

"We did an exercise looking at specialised corporate bond products, and we found that non-sustainably labelled funds may well be more sustainable than the sustainably labelled ones," he said.

"It suggests that there's not necessarily greenwashing, but still some optimistic labelling going on out there."

Hoskins added that this meant every investment had to be fully assessed for each client to make sure it genuinely met their needs.

Identifying motivations

Hoare, of C Hoare & Co, added that the operations of charities and grant-making foundations differed. Charities need a certainty of cash flow to fulfill their aims, whereas those making grants might not be as concerned if their cashflow fluctuates in the short term.

"So when you are a trustee, you have to think about how things are lined up; there's the size of your organisation, what the charity is looking to do, and then the income source, and looking across those three dimensions then you can come to a sensible strategy," he said.

Barnett Waddingham's Parry added that those overseeing a not-for-profit's investment portfolio had to "do some equation solving" to ensure their investment desires can meet their charitable aims.

"The initial focus is that trustees want a certain return with a certain income, but that isn't terms of your charitable or impact aims," he said.

"You can't take a chance and say, we'll start this bursary off but we might not be able to pay years two, three and four; stakeholders need to think how they can marry these objectives."

Several participants noted that governance was key, but that it was also a main stressor for their clients, who often felt they could be doing something better in relation to how they were overseeing their portfolios.

"If you ask any institution or investment committee what they would do with unlimited time, they would almost always say that there is something they want to do better," said Isio's Webb.

"I think most clients would acknowledge their governance isn't perfect... and I think that's something that needs to be solved as it tends to get overlooked because people prefer to focus on what to invest in and can miss the bigger picture."

BlackRock's Harris noted there had been positive developments in governance standards across the board. He said: "Charities, like many institutions, are always looking to evolve. Nobody can say they get it right every time, so I think there are always areas for improvements."

Hoskins added she had also seen more independent advisers appointed to committees to boost expertise, "which I think has been really healthy". Such advisers can provide useful guidance in situations where endowments or foundations find themselves on the wrong end of protests about divestment, for instance.

Barclay's Topley noted that university clients often sent him an ever-expanding list of stocks and sectors that students were demanding be excluded, while Greenbank's Hoskins had a similar situation whereby a university opted to sell its small fossil fuel-related holdings, held to allow engagement, due to protests on campus.

"That's why I think the UK regulations are trying to solve that kind of problem, with the new labelling regime under SDR, making it very clear about the type of sustainability strategy you are running," Topley said.

"If it is a focused fund, its focus is on companies that are already sustainable, whilst an improvers fund is where you're getting involved in more contentious businesses, but trying to engage with them to ensure they have a better impact on the planet."

Barnett Waddingham's Parry noted that, given the "huge amount of choice and ways of doing things" in

> *"Barnett Waddingham's Parry added that those overseeing a not-for-profit's investment portfolio had to do some equation solving to ensure their investment desires can meet their charitable aims. The initial focus is that trustees want a certain return with a certain income, but that isn't necessarily compatible with what you want to do in terms of your charitable or impact aims."*

terms of financial instruments, trustees may increasingly seek support with decision-making.

"The investment landscape is more complicated and I can foresee a greater professionalisation emerging, a need for guidance and help to channel those great intentions into good outcomes," he said.

Ultimately, the panel agreed that ensuring the most robust governance possible was the best approach for endowments and foundations.

Ensuring that proper documentation existed was also deemed important, so that if a highly experienced individual left the board, the knowledge was available for other committee members to pick up.

Furthermore, Hoare added that foundations and endowments provide a different approach. He stated that his family had in 1719 funded the creation of the Westminster Hospital, the first time that private sponsorship made healthcare free at the point of use.

"Now, there are pools of philanthropic capital that have the ability to prove that there is a different way of investing, and they can be the catalyst for showing that impact investing is a viable asset class," he said.

Visible challenges

"I would say more than 50 per cent of the time, we're talking to endowments about inflation at the moment," BlackRock's Harris said.

"And I think that's a much bigger concern for endowments now than it was in the recent past."

He added that the difference between nominal and real returns meant that endowments were facing a period of time when their reserves would need to recover.

XPS's Weir stated that some foundations might face a counter-intuitive challenge; namely that they might not want to prioritise sustainability.

"There's a working assumption that everyone does care about it, but if you are advising clients, then you have to acknowledge that it is a valid perspective not to," he said.

Others agreed that so-called sustainable investments didn't always mean better performing ones from a financial perspective, and essentially, the key for not-for-profits was generating income to enable them to fund their charitable aims.

"The sector is broad. We have a cancer-orientated client and what they care about is funding medical research," said Hoskins.

"They don't want cluster bombs or tobacco, but other than that, they just need the money to fund their work. But they are very aware of their reputational risk."

However, the roundtable panellists debated why a foundation or endowment wouldn't invest sustainably if doing so could meet their investment goals, with risk and cost being similar.

Some participants noted that a portion of their client base was willing to ride the highs and lows of sustainable investing, believing that in the long-term the decision would come good, but that others were now less convinced given recent challenges to returns for more ethical-focused investments.

Barclays' Topley added that an element of education was sometimes needed with clients to ensure they fully understood the rationale behind opting for sustainable investments.

"We've managed new university endowments and it's the first time they've had invested assets, and they don't really know that they could need sustainable assets," he said.

"But you have to tell them that it may come back at them pretty quickly if they don't start thinking about responsible and sustainable investing, as the student base might pressure you to do so."

The panel touched upon the Butler-Sloss ruling and the Charity Commission's subsequent clarification of the outcome.

"The way the Charity Commission clarified things was to say you can, as charities, invest sustainably if you can explain why that's appropriate," Hoare said.

"This is a problematic position. I believe it's the wrong way around.

"If you are a charity, and money has gone into it with tax reliefs and for the public good, it should be that trustees should invest sustainably; but if they want to step away from that then they should have to justify it."

But Aon's Hurshman thought "it would be a bit of a mess" if the Charity Commission told charities they had to invest sustainably.

"The issue comes with how difficult it is to quantify the impact your investments are making and whether or not a fund is or isn't sustainable," he said.

"I'm not sure we're at a point where there's a clear-cut answer on that."

The example of L'Oreal was raised, which was found to have used jasmine picked by child labour through

one of its suppliers, highlighting that even some of the largest companies that have a high competency when it comes to ESG could face intermittent problems.

The panel agreed that constantly analysing ESG criteria, and fully comprehending every possible impact an investment could have was extremely difficult, if not impossible, and so trustees who did opt to invest responsibly simply needed to make sure their investments echoed their mission.

XPS's Weir acknowledged a potential conundrum that trustees faced in this regard, though.

While there was an ever-increasing range of strategies to choose from that offered increasingly sophisticated ESG outcomes, and a rising amount of non-financial data to help them hone their investment decisions, analysing all of this could be a challenge.

"The long-term challenge is, how does that information feed through to align to what the trustees actually want to invest in, and to then align to their charity's purpose and lead to the desired impact?" he said.

Regardless of their choices, though, it was felt that charities would have a lot more demand for their services, especially in the UK given the nation's relatively perilous finances which could see politicians leaning on the voluntary sector more.

This could, some suggested, lead endowments, foundations and charities to ensure they were paying competitive fees for any advice, consultancy service, or investment charges, and thus lead to prices coming down.

Barclays' Topley felt a long-term challenge for the sector was to become more transparent, while BlackRock's Harris felt that trying to align an organisation's goals with its investment returns could be difficult in an increasingly fragmented market.

But Isio's Webb thought the main challenge could be a classic one that all investors face.

"I think the big challenge is one we've taken for granted in this discussion, which is generating an investment return and minimising investment risk," he said.

"I think that is always inherently challenging and it will continue to be so."

Roundtable Participants

Michael Topley
Head of Sustainable Portfolio Management

Personal Profile

Mike joined Barclays Private Bank in 2010, where he is head of Sustainable Portfolio Management, as well as being a senior member of the Global Equity team. He has more than 10 years of experience managing assets on behalf of institutional charities, not-for-profits, family offices and private clients.

Mike was a key architect of the Private Bank's ESG framework, which is used to assess the risks and opportunities presented to companies from environmental, social and governance factors.

Mike holds an MSc in Investment Management from Cass Business School, a BA (Hons) in Accounting & Finance from Durham University and is a member of the Chartered Institute of Securities & Investments (MCSI).

Company Profile

Founded in 1690, Barclays PLC is a major global financial services provider, engaged in retail banking, credit cards, corporate and investment banking, and investment management. Barclays is a publicly listed company with a primary listing on the London Stock Exchange and a secondary listing on the New York Stock Exchange and is a constituent of the FTSE 100 Index.

Barclays Private Bank provides institutional investment management services to a broad range of investors including the education sector, charities, not-for-profits, ultra-high net worth individuals, family offices, corporates, and sovereign wealth funds.

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Victoria Hoskins
Greenbank Head of Charities

Personal Profile

Victoria is an investment director with over 20 years' experience in providing and managing investment solutions to Charity and Pension Fund trustees, as well as to individuals including those with bespoke or complex investment requirements.

Victoria is a chartered fellow of the CISI and an experienced Trustee. She is a former Executive Trustee of the Edward Gostling Foundation, former trustees of the Lankelly Chase Foundation, an early adopter of the UNPRI, latterly chairing the Investment Committee, and former advisor to the Stroke Association Investment Committee.

Victoria joined Greenbank in 2015 from Barclays where she was senior director for the London Charity Team. From 2007- 2010, Victoria was regional investment director for London and the South East responsible for the Gerrard Investment Management business. Victoria began her city career with Capel Cure Myers in 1998, following a successful career in Opera and Musical Theatre.

Company Profile

Charities have entrusted their investments with Rathbones for decades, and our dedicated approach has seen us become one of the leading investment managers for charities and not-for-profit organisations in the UK. For those who wish to include a high level of sustainability throughout their portfolio, we have our Greenbank specialists - an experienced team in the sustainable investment field, helping to drive change in financial services, business and society through ethical and sustainable investment for well over 20 years.

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Roundtable Participants

Matt Hurshman
Associate Partner

Personal Profile

Matt is an Associate Partner with a key role of providing not-for-profit expertise to clients as well as Aon as a whole. He has over 10 years' experience advising a wide range of institutional investors including UK defined benefit pensions, charitable organisations and universities.

Before joining Aon, Matt spent over 8 years as an Investment Consultant at Barnett Waddingham with a focus on advising not-for-profit clients on their investments. Matt believes that setting the right strategy is key to achieving his client's objectives. As a trusted advisor, Matt makes it a priority to ensure that his clients are informed and receive prompt and clear client service.

Matt has a Ph.D. in Mathematics and Statistics from Dalhousie University and is a Fellow of the Society of Actuaries.

Mark Parry
Principal, Head of Manager Research Team

Personal Profile

Mark leads our Manager Research Team. Working closely with our consultants, his team provides clients with the resources to help them make investment decisions that are aligned to their investment strategy.

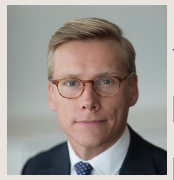
A senior investment professional with over 20 years' experience as a multi asset and fixed interest fund manager, Mark has the knowledge and expertise to assist clients with the information and support they need.

Mark is part of our research leadership team, so has a firm-wide view of research across different areas. This enables him to identify and develop research opportunities that are likely to benefit our clients.

Mark has wide ranging experience of strategic and tactical asset allocation, fund and manager selection, portfolio construction and risk management, along with macroeconomic and asset class research.

He graduated with a degree in Economics and Computing and has held a variety of fund manager roles in fixed interest and multi asset at various investment and asset management companies.

Mark has worked with a range of pension funds, charities, family offices, and sovereign and supranational entities, to manage risk and return, and implement new strategies.

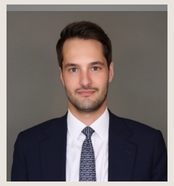


Scott Harris
EMEA OCIO lead for Family Offices, Endowments & Foundations

Personal Profile

Scott leads the development of OCIO relationships with Family Offices, Endowments & Foundations across EMEA for BlackRock. He works with clients to build whole portfolio investment solutions leveraging both BlackRock and 3rd party manager capabilities.

Prior to this role, Scott led Business Development and Strategy across the UK and Ireland working closely with the Country Manager. Before joining BlackRock, Scott spent 3 years working for the Australian Government looking after foreign direct investment and trade between Europe and Australia. Prior to working for the Australian Government, he worked for Goldman Sachs and the Commonwealth Bank of Australia.



Rennie Hoare
Partner and Head of Philanthropy

Personal Profile

Rennie joined the bank in 2016 and was invited to join the partnership in 2018.

Rennie is Head of Philanthropy. He also chairs Hoares Trustees Limited (HTL), which is the trustee of the Master Charitable Trust, a donor advised fund. Previously, he worked at T. Rowe Price and was responsible for relationships with institutional investment consultants in the UK and Europe. Before joining T. Rowe Price in 2011, he spent time at both Threadneedle and Guinness Asset Management. He graduated from the University of York with a BA Hons in Politics and holds the Investment Management Certificate.

Rennie chairs Philanthropy Impact and is a trustee of the David Nott Foundation. He particularly enjoys mentoring the next generation of philanthropists.

Roundtable Participants

Anthony Webb

Associate Director

Personal Profile

Anthony is an Associate Director at Isio in the investment consulting team. He has deep experience in advising endowments and pension schemes on investment governance, investment strategy, asset allocation and fund selection. He also sits on the GIPS committee for performance assessment of UK fiduciary managers.

Anthony is a qualified actuary with 20 years of industry experience. When not at work he likes to go jogging, juggle, and bounce on a trampoline with his two young children (but not all at the same time).

Fraser Weir

Senior Investment Consultant

Personal Profile

Fraser is a Senior Investment Consultant based in our Leeds office and has 10 years' industry experience advising trustees of charities and endowments and defined benefit and contribution schemes.

Fraser is also a key member of the fiduciary management oversight team and leads our fiduciary manager research team. Fraser specialises in manager selections and on-going investment oversight for trustees who have delegated investment decisions to an investment manager.

Moderator

Elizabeth Pfeuti

Director

Personal Profile

Former Dow Jones staffer Elizabeth Pfeuti is Rhotic's Chief Client Officer and a member of the Rhotic Media executive leadership team. A highly-decorated journalist, Elizabeth has been in financial journalism for around 15 years. At Dow Jones, she covered the asset management, investment banking and investor services beats for Financial News, where she also wrote on a wide range of regulatory themes

She was previously the European Editor for CIO Magazine and boasts an exceptional contact book of buy-side and in-house institutional CIOs and asset management executives. More recently she has worked on corporate briefs for pension consultants, investment banks and asset management groups.

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Has sustainable investing become uninvestable?

"There is still a positive outlook for sustainable investing, if you know where to look."

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The world of sustainable investing can be difficult to navigate. Notwithstanding increased regulatory scrutiny and greenwashing risks, simply finding value in the market can be a real challenge for investors seeking both returns and positive impact.

Investing thematically may seem an obvious way to gain exposure to the sustainability areas one cares about, such as climate change, clean energy, biodiversity, agriculture, and more. At a high level, there appears to be a wide range of companies offering viable solutions to the challenges we face in these areas. But diving deeper into the investment cases for these can show that long-term returns could be at risk, as many of these industries struggle to maintain momentum.

Authors:

Mike Topley

Head of Sustainable Portfolio Management

Olivia Cook

Sustainable Product Specialist

Overcapacity and over-investment

Among the most promising technologies in the energy transition are electric vehicles (EVs). Sales of EVs worldwide have risen in recent years and are predicted to continue to do so[1] . This increased demand has spurred investment, with more raw material being mined for EV batteries, and more batteries being produced[2] . This increased manufacturing has been concentrated in China, where prices for next-generation battery technologies have fallen by 90% over the last decade[3] .

Overcapacity has become a key issue, and over-investment is most apparent in battery cell manufacturing, where planned lithium-ion cell manufacturing capacity for 2024 is over five times the expected global battery demand[4] . While lower prices sound good for consumers, they create a real challenge for new market entrants, or for companies looking to expand, which in turn limits opportunities for long-term investment gains.

Solar power shows a similar story. Technological progress has been the primary driver of falling solar panel costs, combined with a surge in competition in the space, with this overcapacity again led by Chinese manufacturing[5] . This increase in competition has led to an increase in bankruptcies for solar companies, while the biggest players in the US have posted large losses in recent financial earnings reports[6] . For consumers, despite the cheap panels, solar energy is still not entirely accessible, due to high up-front installation costs[7] . In Europe, some consumers have taken to using solar panels as garden fencing to avoid the high rooftop installation costs[8] . Grid connectivity and capacity issues also limit the uptake of this energy source[9] .

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Geopolitical risks and ailing infrastructure

Intrinsically linked to climate change are themes such as water and agriculture, but finding a viable way to invest in them is challenging. Geopolitical events have created volatility for food production and supply in recent years, with high proportions of key crops coming from areas of the world engaged in conflict[10] . This makes investing in this area of the market even riskier. The reliance on favourable weather patterns means returns are unpredictable, and often cyclical.

In the UK, it is no secret that water utilities are struggling, and investors are losing confidence. Infrastructure is outdated, and the high cost of upgrading means that companies are unable to properly address the problems they face, such as leaks and contamination, without passing on high bills to consumers[11] .

"There is still a positive outlook for sustainable investing, if you know where to look."

Opportunities within the challenges

While all this seems rather negative, there is still a positive outlook for sustainable investing, if you know where to look. It's important to focus on the opportunities that arise from these challenges. For example, most countries are not set up to deal with a fully electric fleet of vehicles. In the US, this could use twice the electricity consumption compared to 2023[12] . This creates opportunities within the supply chain, from charging operator manufacturers and developers, to optimising electricity flow efficiency, where AI will likely play a big part.

The AgTech market is expected to grow rapidly in coming years, to help combat food insecurity and meet rising global food demand.

In agriculture, the development of AgTech will be key to combat food insecurity, and this market is expected to grow rapidly in coming years . The growing global population means that crop yields will need to increase, which should drive demand for biopesticides, smart sprayer treatments and other technical solutions that can increase yield while reducing stress on land.

Water is another area where focusing on the supply chain can be far more valuable than the utilities themselves. Companies developing new technologies to test and purify water or to detect leaks in systems are likely to have greater long-term potential.

Finally, demographic shifts are not only increasing food demand, but also changing diets, which can contribute to a host of risk factors relating to human health. There are many strong, well-established companies developing solutions to these problems, whether it's diabetes, obesity or high blood pressure.

"Focusing only on specific themes can lead to narrowly constructed portfolios. Taking a bottom-up approach (...) may be a better route to long-term returns."

Focus on quality growth

The role of the equity investor is to filter out the noise and focus on stock-picking, seeking value in companies that have exposure to these growth opportunities. When it comes to investing sustainably, it's important to take step back and look at where the value is truly being added.

Focusing only on specific themes can lead to narrowly constructed portfolios. Taking a bottom-up approach and identifying stocks that can support global development while still maintaining organic growth, high returns on investment, and high cash flows may be a better route to long-term returns.

Sources: [1]BloombergNEF, June 2024 , [2]Investing News Network, June 2024 , [3]IEA, April 2024 , [4]BloombergNEF, June 2024 [5]Bloomberg, April 2024 , [6]TIME, January 2024, [7] Financial Times, April 2024 , [8]Financial Times, April 2024, [9]BBC, May 2023 [10]European Parliament, April 2022 , [11] Morningstar, January 2024 , [12]BloombergNEF 2024

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