GLOBAL SUSTAINABLE OUTCOMES

News & Views Q4 2019

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In 2015 the UN set 17 global sustainable development goals and 169 targets to encourage corporate and government action in areas of critical importance to humanity and the environment. These targets were all set for 2030, meaning this new decade is crucial in achieving our ambitions for a better planet for all.

As a result we have recently seen a ramping up of corporate ambition on sustainability and the last quarter of 2019 certainly didn't buck this trend.

There have been an increasing number of large corporates introducing carbon negative targets (see box). One of our holdings, Microsoft, announced plans to become carbon negative by 2030. It also pledged to remove all of the greenhouse gas emissions it has created since it was founded in 1975. The company has been "carbon neutral" since 2012, which largely involved the purchase of offsets (and which can be controversial). One of the most laudable aspects of its new targets, however, is that they acknowledge the limitations of offsets and are pivoting the strategy away from this to more targeted solutions.

This involves actions such as using 100% renewable energy by 2025. Microsoft has also allocated $1 billion to a climate innovation fund to "accelerate the global development of carbon reduction, capture, and removal technologies". It will also incorporate carbon reduction into its supply chains and work to help customers reduce their carbon footprints too.

However, given the urgency in achieving these sustainable development goals governments are also accelerating regulations targeting environmental and social issues. We think the European Commission's Green Deal is a taste of things to come. This ambitious regulation, released in December 2019, outlines:

- **A carbon border adjustment mechanism:** to be introduced by 2021, aimed at protecting European energy-intensive industries against cheaper imports from regions with weaker climate policy
- **A climate law:** to be proposed by March 2020 which will commit the EU's 2050 climate neutral objective to law
- **Ramping up of interim ambition:** 2030 emissions reduction targets have been increased from 40% to between 50% and 55% compared with 1990s levels
- **Possible extension of the EU emissions trading scheme:** this could apply to new sectors currently not included such as shipping

Businesses' attempts to become carbon neutral will involve switching to renewable energy. Source: iStock

Less than zero

Carbon negativity is the reduction of a carbon footprint to less than neutral, with the net effect of removing carbon dioxide from the atmosphere rather than adding it. Only a handful of companies have committed to net-negative or, as they sometimes put it, "climate-positive" greenhouse gas emissions targets.

Q4 and 2019 performance[1]

Global markets were up strongly in Q4 2019, rising by around 9% and led by strength in healthcare, information technology and internet sectors. Within information technology the stand out winners were semiconductor stocks, which rose 20% over the quarter as investors became increasingly bullish about a recovery in pricing and volume growth in 2020.

Although our Global Sustainable Outcomes (GSO) strategy was up strongly too over the quarter, its 7% rise was muted versus the market with some of our more highly valued, staple-like holdings negatively impacted by the rise in US bond yields.

However, over the full year the strategy delivered strong financial outperformance, up 33% or +4.6% relative to the MSCI ACWI with outperformance across all sectors, excluding consumer staples. It did this while delivering positive environmental and social outcomes for our investors. This supports our core philosophy that delivering positive sustainable outcomes and financial returns for investors are not mutually exclusive.

[1] Source: All data Factset/Columbia Threadneedle Invetsments internal report, 31 December 2019.

Polluted river in the Phillipines. Source: iStock/Getty Images International.

Sustainable theme focus: Dealing with our plastic waste

We have a plastic problem. On a trip to visit my family in South Africa at Christmas, what struck me was that even on the most remote and protected marine coastline my children and I managed to fill bags with plastic straws and other plastic debris. And the stats confirm we have a problem. Currently, only 14% of our annual plastic packaging produced is recycled, while only 2% is reused for the same or similar products.[2]

Instead, most of our plastic waste ends up in landfill, with huge CO2 emission implications, or is leaked into our environment (around 12 million tonnes of plastic enter the oceans globally every year).[3] The problem is only growing as urbanisation, population and income growth, particularly in emerging markets, lead to growing plastic packaging consumption.

Earlier this year, China joined the growing movement of more than 120 countries pledging to ban single-use plastics after its largest rubbish dump – the size of around 100 football fields – was filled 25 years ahead of schedule.

However, it is not only consumers and governments who are being pressured to deal with plastic waste. To-date, corporates have held little to no responsibility for the waste they produce – their production has been linear, ie, they don't consider the end-of-life of their products.

But this is starting to change with growing pressure from consumers and regulators for production systems to become more circular. For example, consumer staples companies such as Coca-Cola are coming under increased pressure to deal with their contribution to plastic pollution. A global audit of plastic waste by charity Break Free from Plastic found Coca-Cola to once again be the

Significant untapped potential to reuse good materials

Source: The new plastics economy, Ellen MacArthur foundation 2017/www.ellenmacarthurfoundation.org

Source: Ellen McArthur Foundation, www.ellenmacarthurfoundation.org/World Bank, December 2019.

most polluting brand in 2019. It currently produces around three million tonnes of plastic packaging per annum, or roughly 200,000 bottles a minute.[4]

The UN SDGs include targets to do "more and better with less". This means companies such as Coca-Cola need to overhaul entire supply chains – they must learn to reduce, redesign, reuse and recycle resources. By doing so we can keep waste production at more sustainable levels.

Ultimately, shifting to more circular production also makes good business sense. By producing products that are fully recyclable and can be reused as inputs not only promotes a company's brand, but can also help lower production costs over the long term.

Our Investments:

- **Trex Company:** Trex is one of the largest plastic recyclers in the US. By using reclaimed plastic and timber in its decking it saves around 400 million pounds of plastic from landfills per annum, with the average 500-square-foot deck containing 140,000 recycled plastic bags.[5] But it has also made good business sense as it has enjoyed a key cost and brand advantage versus peers who use virgin plastic, supporting consistent share gains over the past decade.
- **Sig Combibloc and UPM:** By providing more sustainable paper-based packaging solutions, these companies are benefiting from the shift away from single use plastic packaging.

[2] Source Ellen McArthur Foundation, Dec 2019.
[3] Source: Science Magazine, Plastic waste inputs from land into the ocean, February 2015.
[4] Source:The Guardian, Coca-Cola admits it produces 3m tonnes of plastic packaging a year, 14 March 2019.
[5] Source: Trex press release, 28 August 2017.

Company Q419 Sustainable impact highlights

We round up the quarterly activity of our top performing stocks and and how they are working more sustainably

Company	Sustainable Category	Share price move	Performance contribution	
Trex	Sustainable Resource Management & Transformation	+54.6%	0.72	95% of Trex's composite decking is made using recycled materials, and given strong demand for the product it is now one of the largest recyclers of discarded plastic shopping bags and polyethlene film wrap in the US. Through its deck production it diverts ~400 million pounds of plastic from landfills per annum. (Source: Trex, August 2017)
adidas	Health, Wellbeing & Food Security	+58.5%	0.71	Adidas enjoyed solid, profitable growth over 2019 with its Sport Performance category (training, running and outdoors) particularly strong, buoyed by the continued consumer shift towards a healthier lifestyle. Adidas made further advances in sustainability over the year too. It expanded its supply chain for Parley Ocean plastics, increasing the number of shoes made from collected ocean plastic with a target to use no virgin plastic in its products by 2024 (Source: FT.com, July 2019). It also introduced FUTURECRAFT.LOOP, its first 100% recyclable performance running shoe. It aims to commercially release this shoe by spring/summer 2021. (Adidas.com, November 2019)
Orsted	Energy & Climate Transition	+57.6%	0.69	We believe decarbonisation will be one of the biggest trends over the next decade and Orsted, the world's largest offshore wind farm developer and operator, is a key enabler of this shift towards green energy (Source: Power Technology, October 2019). Orsted enjoyed strong performance over 2019 as its installed capacity and development pipeline was stronger than expected and the market outlook for renewables strengthened (Source: Orsetd.com, January 2020). In addition, the impact from oil and gas companies entering the renewable market was much more muted than expected. This is testament to the strong competitive moats that companies like Orsted enjoy.

Source: Share price and performance data Factset/Columbia Threadneedle Invetsments internal report, 31 December 2019. The mention of any specific shares or bonds should not be taken as a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

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