

Boohoo: a cautionary ESG tale

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This week, we publish our table of the top holdings of some of the best-performing funds investing in sustainable UK equities for a second time. When this table was first published in mid May, I commented that not all the names on the list were what one would expect. Online fast-fashion retailer **Boohoo (BOO)** was highlighted as a prime example.

I also attempted to outline the logic of why a sustainable investor may buy into this kind of situation; some 'green' investments are less about the starting point than the direction of travel. But the intervening few months at Boohoo have shown how this kind of approach can turn out to be dangerously contrived. Boohoo remains on the best ideas list, but readers should bear in mind this relates to latest portfolio disclosures at the end of May rather than current holdings. Both positions are in funds of Aberdeen Standard Investment.

There are broadly three things sustainable investors tend to be concerned about, which are captured in the acronym ESG: E for environment; S for social issues, such as worker rights; and G for governance.

On the E front, while Boohoo has trumpeted initiatives to try to keep its product out of landfill, what it sells tends to have a worryingly short wardrobe life. Not much has changed here, although investors may have reason to feel more cynical about the 'green' initiatives.

The reason for increased cynicism is a result of developments on the S front. Leicester, where Boohoo sources much of its product, has long been characterised as an on-shoring dystopia (bringing sweatshops home). Boohoo has played up its supply chain auditing efforts and a move towards full supply chain transparency. But a barrage of reports about atrocious conditions at factories supplying Boohoo have led to the share price collapsing two-fifths and many other retailers, including Next and Asos, have dropped Boohoo brands. The company is launching a QC-led investigation.

Then there is the G, often seen as the most important letter in ESG. In late May, shrewd short-selling specialist ShadowFall published a blistering attack. A key element of the short note concerned the relationship between the company and its two-thirds-owned

subsidiary Pretty Little Thing. The subsidiary was founded by the son of Boohoo's chairman and 12.1 per cent shareholder Mahmud Kamani. The remaining third of Pretty Little Thing, was swiftly bought out for £324m, which partly addressed Shadowfall's criticisms. Still, related-party transactions are, in general, viewed dimly by governance experts.

It was less than a month before there was more G-based discontent. In mid June, a third of shareholders voted against the company's remuneration report. A week later the company went ahead with a £150m management incentive scheme based solely on share price performance to 2023. Schemes based on share price are a worry because they can run counter to long-term operational concerns and wider stakeholder interests. This latter point seems particularly pertinent in light of the supply chain controversy.

With hindsight, it feels staggering Boohoo could be an ESG play. But, ironically, there could be a strong commercial logic in cleaning up supply, creating a barrier to new entrants. This is particularly relevant given the success of Boohoo-like retailer I Saw It First, which was founded in 2017 by Jalar Kamani, big brother of Boohoo's chairman and the company's former trading director – boohoo indeed!

Fund manager best ideas: UK sustainable

Based on top 5 holdings

8/07/2020	No of funds		
GlaxoSmithKline	5 (+1)	HSBC	1
National Grid	3 (-1)	Intermediate Capital	1
AstraZeneca	3	BHP	1
Experian	3 (+1)	Prudential	1 (-3)
London Stock Exchange	3	Rentokil Initial	1
Boohoo	2 (+1)	SSE	1
AVEVA	2 (NEW)	Sage Group (The)	1 (NEW)
Kingspan	2 (NEW)	Hargreaves Lansdown	1
Smurfit Kappa	2	Legal & General	1 (-1)
Just Eat Takeaway.com NV	2	Halma	1
Unilever	2 (+1)	Dechra Pharmaceuticals	1
Croda International	2 (+1)	Genus	1
Reckitt Benckiser	1 (NEW)	Smith & Nephew	1 (-1)
Colgate-Palmolive	1	Hikma Pharmaceuticals	1 (NEW)
Kainos	1	Frontier Developments	1 (NEW)
Howden Joinery	1	Tesco	1 (-1)
Polypipe	1	Unilever NV	1
Bellway	1 (-1)	S&P Global Inc	1
GB Group	1	Nestlé SA	1
Diploma	1	Thermo Fisher Scientific Inc	1
Avast	1 (NEW)	UnitedHealth Group Inc	1
LondonMetric Property	1 (NEW)	Tristel PLC	1
Phoenix Group	1	Inspired Energy PLC	1
Telecom Plus	1	Augean PLC	1
Primary Health Properties	1	Gresham House PLC	1 (NEW)
Sabre Insurance	1	AB Dynamics PLC	1

Source: Morningstar

New 52-week highs (top 30)

Name	TIDM	Price	% from high
Clipper Logistics	CLG	340p	0.0%
Active Energy Group	AEG	1p	0.0%
Premier Foods	PFD	80p	0.0%
Baillie Gifford US Growth	USA	227p	0.0%
Croda International	CRDA	5,374p	0.1%
International Biotech	IBT	808p	0.2%
Pacific Horizon Inv't Tr	PHI	526p	0.4%
Hipgnosis Songs	SONG	121p	0.4%
Edinburgh Worldwide Inv't	EWI	280p	0.5%
Aberdeen Japan Inv't Trust	AJIT	650p	0.5%
Bunzl	BNZL	2,229p	0.6%
Biotech Growth Trust	BIOG	1,387p	0.6%
Smithson Investment Trust	SSON	1,520p	0.7%
JP Morgan Japan Smaller	JPS	454p	0.7%
Schroder Asian Total	ATR	386p	0.8%
BATM Advanced Comm	BVC	118p	0.8%
JPMorgan Japanese Inv't	JFJ	545p	1.1%
Scottish Mortgage Inv't Tr	SMT	892p	1.1%
Capital Gearing Trust Plc	CGT	4,440p	1.1%
Renishaw	RSW	4,220p	1.1%
JBM CN Grw&Inc	JCGI	516p	1.1%
Air Partner	AIR	99p	1.2%
Cello Health	CLL	163p	1.2%
Octopus Renewables Infra	ORIT	112p	1.2%
Monks Investment Tr	MNKS	1,110p	1.2%
IG Group Holdings	IGG	863p	1.3%
Herald Investment Trust	HRI	1,624p	1.3%
B&M European Value Retail	BME	434p	1.3%
Polar Capital Tech	PCT	2,120p	1.3%
Personal Assets Trust	PNL	44,350p	1.4%

Source: FactSet, as at 8 July 2020

New 52-week lows

Name	TIDM	Price	% from low
STV Group	STVG	220p	0.0%
Babcock International Group	BAB	297p	0.6%
Pittards	PTD	40p	1.3%
Impellam Group	IPEL	225p	2.2%
TOC Property Backed Lndng	PBLT	86p	2.9%

Source: FactSet, as at 8 July

Shorts

Company	Short interest	No of shorters	1-week change in short interest
Hammerson	12.6%	9	0.0%
Royal Mail	9.1%	7	-0.2%
Premier Oil	8.7%	3	-0.1%
Tullow Oil	8.1%	6	0.4%
Pearson	6.3%	6	-0.5%
Domino's Pizza	5.9%	8	1.1%
Pets At Home	5.7%	3	0.3%
Petrofac	5.3%	5	0.5%
GW Pharmaceuticals	5.2%	4	0.0%
Petropavlovsk	5.2%	1	0.0%
Future	4.8%	3	0.2%
Blue Prism	4.7%	5	0.7%
Croda International	4.6%	5	0.1%
Babcock Intl	4.6%	3	-0.6%
Smith (David S)	4.5%	6	0.4%
Dignity	4.1%	3	-0.1%
Weir Group	4.1%	5	0.4%
Tui Ag	4.0%	4	0.0%
Ascential	4.0%	5	0.0%
Vodafone	3.9%	4	0.0%
Wood Group (John)	3.9%	6	0.0%
Sainsbury (J)	3.8%	2	0.1%
AG Barr	3.8%	3	0.0%
Capita	3.7%	5	0.3%
Wm Morrison Supermarkets	3.7%	3	-0.7%
Keywords Studios	3.5%	4	0.0%
Marks & Spencer	3.2%	2	0.0%
Primary Health Properties	3.2%	4	0.0%
Burberry	3.2%	4	-0.1%
Auto Trader	3.1%	5	0.0%
Ultra Electronics	3.0%	1	-0.3%
Daily Mail & General Trust	3.0%	3	-0.1%
Restaurant Group	2.9%	3	0.1%
Valaris	2.8%	1	0.0%
Victrex	2.7%	3	0.1%
InterContinental Hotels	2.6%	2	0.3%
Hargreaves Lansdown	2.6%	4	New
AA	2.5%	2	-0.6%
Signature Aviation	2.5%	4	0.1%
Virgin Money UK	2.5%	3	New
Aggreko	2.5%	2	-0.2%
Micro Focus International	2.4%	2	New
British Land Co	2.4%	3	New
Crest Nicholson	2.4%	3	New
Ashmore	2.3%	2	-0.6%
N. Brown	2.3%	2	0.0%

Source: FCA, as at 8 July

1-month EPS upgrades (top 25)

8 July 2020	FWD EPS CHG			
Name	TIDM	1mth	3mth	1yr
Yellow Cake	YCA	1604.3%	-	1943%
RI Est Cred	RECI	807.1%	10.2%	-
Trackwise Designs	TWD	226.9%	157.6%	70%
Draper Esprit	GROW	209.2%	26.9%	-22%
Gear4music Holdings	G4M	164.0%	356.7%	265%
Best of the Best	BOTB	110.2%	168.5%	311%
System1 Group	SYS1	105.3%	181.7%	27%
Totally	TLY	96.4%	96.7%	-
RM	RM	92.1%	-76.7%	-76%
Atalaya Mining	ATYM	86.5%	36.2%	-52%
Urban&Civic	UANC	82.7%	70.0%	-44%
United Oil & Gas	UOG	76.8%	-	-
BATM Advanced Comm	BVC	75.4%	69.6%	135%
Antofagasta	ANTO	70.4%	0.0%	-59%
DWF Group	DWF	69.9%	-6.5%	25%
BP	BP	67.1%	-80.2%	-95%
De La Rue	DLAR	61.9%	57.0%	-55%
MJ Gleeson	GLE	49.5%	-43.6%	-63%
Numis	NUM	45.8%	-	38%
Equals Group	EQLS	42.9%	42.9%	0%
ECO Animal Health Group	EAH	39.6%	39.6%	-58%
Photo-Me	PHTM	35.9%	35.9%	2%
Codemasters Group Holdings	CDM	34.5%	42.3%	20%
Up Global Sourcing Holdings	UPGS	30.9%	-15.3%	0%
Hummingbird Resources	HUM	30.8%	-	0%

Source: FactSet

1-month EPS downgrades (top 25)

8 July 2020	FWD EPS CHG			
Name	TIDM	1mth	3mth	1yr
On The Beach Group	OTB	-95.4%	-98.7%	-99%
ULS Technology	ULS	-84.2%	-84.2%	-86%
Hunting	HTG	-81.9%	-95.2%	-98%
Nexus Infrastructure	NEXS	-80.7%	-82.5%	-75%
Speedy Hire	SDY	-78.5%	-78.5%	-79%
Halfords Group	HFD	-74.2%	-72.3%	-76%
Renewi Plc	RWI	-72.0%	-69.0%	-75%
IGas Energy	IGAS	-70.9%	-93.2%	-89%
Biffa Plc	BIFF	-68.7%	-80.1%	-82%
Renold	RNO	-68.7%	-68.7%	-84%
Scapa Group	SCPA	-65.7%	-67.9%	-74%
JD Sports Fashion	JD	-65.5%	-65.5%	-64%
IWG	IWG	-63.8%	-86.1%	-94%
Wincanton	WIN	-63.8%	-63.5%	-63%
1pm	OPM	-59.6%	-57.4%	-63%
4Imprint Group	FOUR	-58.4%	-80.8%	-87%
Steppe Cement	STCM	-57.9%	-59.2%	-60%
HML	HMLH	-53.2%	-	-53%
First Property Group	FPO	-52.2%	-	-52%
N Brown Group	BWNG	-51.9%	-52.4%	-60%
Mpac Group	MPAC	-51.7%	-68.8%	-45%
Forterra Plc	FORT	-51.5%	-63.4%	-69%
NewRiver REIT	NRR	-49.5%	-53.1%	-50%
Griffin Mining	GFM	-47.7%	-49.4%	-55%
Norcros	NXR	-47.5%	-52.2%	-58%
Polypipe Group	PLP	-47.2%	-55.6%	-59%

Source: FactSet