

Profit from ESG

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Any reader who listened to last week's IC Investment Hour podcast will know that the world of ESG investing is confusing. However, it is also a theme that offers significant potential rewards. This is the reason we've picked it as one of the themes for the Fund Manager Best Ideas lists we publish on rotation in the Ideas Farm. This week we're featuring a list of the most popular holdings of top global equity ESG funds – last week it was holdings of UK-focused sustainable funds. We think top fund managers' best ideas could prove particularly valuable for highlighting stocks in an area as confusing as ESG.

The CFA's sustainability handbook gives seven approaches to ESG equity investment: exclusions; best-in-class; ESG integration; exercise of voting rights; shareholder engagement; sustainability themes; and impact investing. Adding to the confusion created by the plethora of takes on sustainability, there is little evidence of any outperformance by ESG funds

of conventional counterparts. What's more, research from the Indian School of Business suggests only about half of the socially responsible funds on Morningstar's database actually boast superior ESG metrics than that expected from an average conventional fund.

Perhaps ESG funds with weak ESG scores should not be too surprising given it can be an entirely legitimate, socially-conscious approach to engage with companies that have poor ESG policies to encourage them to do better. So too can investing in companies that provide sustainability solutions to others regardless of their own internal standards. For investors, the more significant findings from academic research is that companies that focus on ESG issues do show some signs of share price outperformance. This seems to be particularly true of companies that focus on the most significant ESG issues in their sector. A potential implication is that as well as addressing risk, intelligently addressing ESG themes may also help companies find new areas of competitive advantage, as well as marking out management that have broader capital allocation talents. These are the type of companies

we'd expect our sustainable Best Ideas lists to highlight, not least because of evidence that fund managers' biggest holdings tend to outperform. So far we feel the lists published in the Ideas Farm have offered rich pickings for ESG investment ideas, with a number of our tips over recent months taking inspiration from this source. Recent examples include industrial gases group and potential hydrogen-energy pioneer Linde, and leading wind turbine maker Vestas.

This week's tips section includes a buy recommendation on **Unilever (UNLR)**, which appears in the sustainability best ideas list below. It perhaps has a less obvious connection to the making-money-from-ESG theme. However, a sustainability drive to make the company carbon positive by 2030 could prove a canny way to differentiate its brands. Essentially, by bringing its financial muscle to bear on sustainability, the group may be able to create a new competitive edge for its brands. This comes at a time when many fear Unilever's historic advantage based on clout in advertising and product-placement could be undermined by local brands exploiting highly-targeted social media marketing and online sales.

Fund manager best ideas: Global Sustainable

Based on top 5 holdings

	No of funds		
Microsoft Corp	10	Fresenius Medical Care AG & Co. KGaA	1 (NEW)
Thermo Fisher Scientific Inc	5 (-1)	Generac Holdings Inc	1
Adobe Inc	3 (+1)	Gerresheimer AG	1
Alphabet Inc A	3	Hoya Corp	1
American Water Works Co Inc	3 (+1)	Humana Inc	1
Equinix Inc	3 (+2)	Iberdrola SA	1
Linde PLC	3	IQVIA Holdings Inc	1 (-1)
Amazon.com Inc	2	Johnson & Johnson	1 (NEW)
Chr. Hansen Holding A/S	2 (+1)	KDDI Corp	1
Mastercard Inc A	2	Keyence Corp	1
Roche Holding AG Divi Right Cert.	2 (-1)	Koninklijke DSM NV	1
Synopsys Inc	2 (+1)	Lam Research Corp	1 (NEW)
Taiwan Semiconductor Man	2 (NEW)	London Stock Exchange	1 (NEW)
Visa Inc Class A	2 (-1)	Lonza	1
ABB Ltd	1	MarketAxess	1
AbbVie Inc	1	MSCI Inc	1
adidas AG	1 (NEW)	Nestle SA	1
Adyen NV	1	Novartis AG	1
Ain Holdings Inc	1	Novo Nordisk A/S B	1 (-1)
Apple Inc	1	NXP Semiconductors NV	1
AstraZeneca PLC	1	PayPal Holdings Inc	1
Autodesk Inc	1 (-1)	Rayonier Inc	1
Bandwidth Inc Class A	1	Rentokil Initial PLC	1
Bio-Rad Laboratories Inc	1	SAP SE	1
Borregaard ASA	1 (NEW)	Schneider Electric SE	1
Bunzl PLC	1 (NEW)	Shopify Inc A	1
Cadence Design Systems Inc	1 (NEW)	SoftBank Group Corp	1
Charter Communications Inc A	1	Staar Surgical Co	1
Cisco Systems Inc	1	Taiwan Semiconductor Man ADR	1 (NEW)
Clean Harbors Inc	1	Tesla Inc	1 (-1)
Danone SA	1	Texas Instruments Inc	1
Deere & Co	1 (NEW)	Estee Lauder Cos Inc Class A	1 (NEW)
Delivery Hero SE	1 (NEW)	Unilever PLC	1
Diasorin SpA	1	Varian Medical Systems Inc	1 (NEW)
Eli Lilly and Co	1 (NEW)		

Source: Morningstar, as at 9 September 2020

New 52-week highs

Name	TIDM	Price	% from high
Collagen Solutions	COS	7p	0.0%
Capital Gearing Trust	CGT	4,500p	0.4%
Baillie Gifford Japan Trust	BGFD	853p	0.6%
JP Morgan Japan Smaller	JPS	455p	0.8%
BBGI	BBGI	171p	0.8%
SDCL Energy Efficiency	SEIT	112p	0.9%
Genus	GNS	3,894p	1.0%
Experian	EXPN	2,924p	1.1%
Hipgnosis Songs	SONG	122p	1.2%
Gresham House	GHE	690p	1.4%
Hastings	HSTG	252p	1.5%
HgCapital Trust	HGT	275p	1.6%
Renishaw	RSW	5,255p	1.7%
Baillie Gifford Shin Nippon	BGS	203p	1.7%
JPMorgan Global Core Real	JARA	111p	1.8%
JPMorgan Global Core Real	JARA	111p	1.8%
TR European Growth Trust	TRG	990p	1.8%
BlackRock Greater Eu IT	BRGE	452p	1.8%
BH Macro	BHMG	3,600p	1.9%
JPMorgan Japanese IT	JFJ	552p	2.1%
Intertek	ITRK	6,046p	2.1%
CQS Natural Resources	CYN	95p	2.2%
Schroder Asian Total	ATR	404p	2.2%
Schroder AsiaPacific Fund	SDP	491p	2.2%
Fidelity Japan Trust	FJV	184p	2.3%
Miton UK MicroCap Trust	MINI	55p	2.3%
Greatland Gold	GGP	17p	2.3%
JPMorgan Asia Growth	JAGI	417p	2.6%
Jersey Electricity	JEL	475p	2.7%
Croda International	CRDA	5,936p	2.8%
Gore Street Energy	GSF	106p	2.8%
JP Morgan European Small	JESC	394p	2.8%
Hikma Pharmaceuticals	HIK	2,594p	2.8%
JP Morgan Emerging Mkts	JMG	1,058p	2.9%

Source: FactSet, as at 9 September 2020

New 52-week lows

Name	TIDM	Price	% from low
Altitude Group	ALT	15p	1.6%
Standard Chartered	STAN	376p	1.9%
HSBC	HSBA	321p	2.0%
John Laing	JLG	278p	2.4%
KKV Secured Loan Fund	KKVX	40p	2.5%
Rotala	ROL	19p	2.7%
TOC Property Backed Lndng	PBLT	86p	2.9%

Source: FactSet, as at 9 September 2020

Shorts

Company	Short interest	No of shorters	1-week change in short interest
Hammerson	14.0%	11	0.0%
Metro Bank	8.7%	5	-0.1%
Sainsbury (J)	8.4%	7	-0.1%
Premier Oil	8.1%	2	0.0%
Pearson	8.1%	8	1.2%
Cineworld	7.9%	8	-0.2%
Tullow Oil	7.5%	6	0.0%
Royal Mail	7.2%	6	0.0%
Petrofac	5.6%	2	0.0%
Pets At Home	5.6%	7	-0.3%
Petropavlovsk	5.5%	7	-0.1%
Tui Ag	5.2%	6	0.4%
Domino's Pizza	5.0%	3	0.1%
Weir	5.0%	4	0.1%
Babcock Intl	4.8%	5	0.0%
Future	4.7%	3	0.0%
Blue Prism	4.0%	4	0.0%
IQE	3.8%	3	0.1%
Vodafone	3.7%	4	0.0%
Micro Focus International	3.7%	5	-0.9%
Croda International	3.6%	3	0.7%
Capita	3.5%	3	0.0%
N. Brown	3.5%	4	0.0%
Wm Morrison Supermarkets	3.4%	4	0.0%
Ashmore	3.3%	3	0.1%
Keywords Studios	3.3%	5	0.6%
Hurricane Energy	3.2%	2	0.0%
GVC	3.2%	5	-0.1%
Marks & Spencer	3.1%	5	0.0%
Wood Group (John)	3.1%	4	0.0%
Auto Trader G	3.0%	1	0.0%
Primary Health Properties	3.0%	3	-0.2%
Ultra Electronics	2.9%	3	0.0%
Intercontinental Hotels	2.9%	3	0.2%
Victrex	2.9%	3	0.2%
Smith (David S)	2.8%	1	0.0%
Network International	2.5%	3	0.3%
Restaurant Group	2.4%	2	0.0%
B&M European Value Retail S.a.	2.3%	2	-1.0%
Hiscox	2.2%	2	0.0%
Vitec	2.2%	4	New

Source: FCA, as at 9 September 2020

1-month EPS upgrades (top 25)

Name	TIDM	FWD EPS CHG		
		1mth	3mth	1yr
MJ Hudson	MJH	180.0%	180.0%	-
Alfa Financial Software	ALFA	169.9%	100.6%	-72%
Halfords	HFD	138.0%	-27.9%	-26%
Mpac	MPAC	125.2%	8.8%	-19%
ASOS	ASC	111.7%	-	248%
TI Fluid Systems	TIFS	79.3%	102.6%	-85%
Science Group	SAG	72.3%	-1.0%	12%
Alumasc	ALU	65.7%	65.6%	-13%
Renishaw	RSW	65.1%	82.5%	-34%
Accrol	ACRL	58.2%	58.2%	-
Wentworth Resources	WEN	53.8%	32.4%	-36%
SigmaRoc	SRC	53.8%	54.8%	-19%
IXICO	IXI	50.0%	-	-
Intu Properties	INTU	40.4%	-23.2%	-72%
Clipper Logistics	CLG	39.7%	36.7%	0%
Capital	CAPD	39.0%	44.9%	70%
Grafton	GFTU	38.6%	20.0%	-45%
Luceco	LUCE	38.6%	126.1%	63%
Plus500	PLUS	35.0%	54.4%	206%
Keystone Law	KEYS	30.9%	-24.5%	-51%
Frontier Developments	FDEV	30.9%	34.1%	87%
Proactis	PHD	30.0%	30.0%	-
Ariana Resources	AAU	26.7%	40.7%	-5%
Gem Diamonds	GEMD	25.6%	-81.0%	-95%
Hummingbird Resources	HUM	25.2%	46.2%	343%

Source: FactSet, as at 9 September 2020

1-month EPS downgrades (top 25)

Name	TIDM	FWD EPS CHG		
		1mth	3mth	1yr
Mears	MER	-88.0%	-94.9%	-96%
Churchill China	CHH	-87.9%	-	-86%
PageGroup	PAGE	-73.4%	-93.5%	-98%
Midwich	MIDW	-65.2%	-70.3%	-72%
Appreciate Group	APP	-62.2%	-62.2%	-63%
H&T	HAT	-57.3%	-57.5%	-40%
Hays	HAS	-53.1%	-46.3%	-80%
Petrofac	PFC	-40.3%	-55.8%	-80%
Balfour Beatty	BBY	-37.8%	-38.2%	-64%
Melrose Industries	MRO	-37.4%	-94.0%	-98%
Inspiration Healthcare	IHC	-37.1%	-47.6%	-35%
Vitec Group	VTC	-31.8%	-41.1%	-91%
InterContinental Hotels	IHG	-30.6%	-63.5%	-86%
Coats	COA	-30.2%	-34.8%	-81%
Saga	SAGA	-27.7%	-26.9%	-75%
Investec	INVP	-26.0%	-26.0%	-43%
Card Factory	CARD	-25.3%	-25.4%	-89%
Bloomsbury Publishing	BMV	-24.9%	-24.9%	-46%
CentralNic	CNIC	-22.9%	-18.7%	-34%
Hammerson	HMSO	-22.8%	-31.9%	-69%
Morses Club	MCL	-21.2%	-21.2%	-35%
NewRiver REIT	NRR	-20.9%	-60.9%	-54%
Glencore	GLEN	-20.1%	-14.6%	-81%
Lancashire	LRE	-19.9%	-39.6%	-51%
Anexo	ANX	-19.5%	-34.0%	-36%

Source: FactSet, as at 9 September 2020