

Navigating Key Trends and Opportunities for 2025

It is a particularly interesting moment to be investing sustainably, one I imagine we will look back on as a pivotal moment. There is a cacophony of rumblings under the surface, which may not initially be perceived as a melodic tune. As an investor, the bull case remains clear. However, these sirens are pulling and pushing consensus for long-term sustainability focused investments toward a fractured picture. Therefore, I will parse the key factors at play to decipher where we are likely to be heading into 2025 and beyond, and why TAM is optimistic about the outlook for investors from here.

Our Environment

October 2024 temperatures were 1.65 degrees C above preindustrial levels and the 15th out of a 16-month period of being above the flagship 1.5-degree Paris agreement on climate change. It is a virtual certainty that 2024 will be the hottest year on record, with sea temperature records already being smashed (5C above normal) off the north-east coast of England and the west of Ireland. Hot ocean temperatures evaporate quicker, intensifying rainfall, making the hurricanes we recently saw in the US stronger in all eleven storms by 9-28 mph. Climate change has also been linked to a worsening of the devastating rainfall in Valencia while climate driven droughts spanning '23 and '24 deeply impacted water

levels in the Amazon, contributing to the worst forest fires in the region for 20 years. Even though humans are aware that many of these devastating effects are linked to the concentration of greenhouse gases emitted, we are on track to beat last year's record setting levels of pollution by a further 0.8% in 2024.

Our Society

The above paints a melancholic picture of how the environment is faring. But how are humans doing? Although a less open and closed assessment, there are a selection of statistics that are concerning for the current direction of travel into the new year and beyond. Starting with the UK, the lifetime risk of cancer for men born in 1930 was 38.5% but is now over 50% for those born after 1960. 64% of adults in England are living with overweight or obesity compared with 36% in 1981 but these troubling statistics put the UK only 77th on the global obesity rankings with more than a billion people obese worldwide. Leaving physical health behind, the plummeting health statistics extend to mental health too. The estimated number of global newly-diagnosed anxiety disorders has increased from 31.3 million in 1990 to 45.82 million in 2019. A 95% increase which rose even higher during the pandemic, leading to 1 in 4 people in the UK each year experiencing a mental health problem. As our society's health flirts with retrograde, sustainability focused investors remain laser focused on those companies providing solutions, and those incorporating these factors into their business practices.

Politics

The case to invest with the above environmental and societal concerns in mind offers a purpose driven investment aligned with financial returns over the long term. 2023 saw some impressive returns for some solvers of social concerns such as obesity drug manufacturers and beneficiaries. However, the shares of some of the better-known companies providing environmental solutions are continuing to struggle. In fact, the benchmark Global Alternative Energy Index, amalgamating the largest renewable energy companies, is now trading at 2016 price levels (FE Analytics). Despite the issues that sustainability focused portfolios consider extending far beyond the political cycle, it is clear Donald Trump's reintroduction to the white house and labelling of climate change as a 'hoax' is throwing the future of Joe Biden's $369bn Inflation Reduction Act into disrepute. The IRA has driven unprecedented investment in green technologies, where regulatory ease and the economic appeal of revitalising deindustrialised areas has facilitated rapid growth.

However, this boom has intensified conservative backlash, with Trump's recent election victory bringing promises to scale back climate policies, even as red-state economies benefit from IRA-driven investments, making the longer-term impact less certain. Despite Trump's protestations, renewable energy has a strong foothold in the U.S. and significant popular support. Market forces and bipartisan benefits from green initiatives, such as those in Biden's Inflation Reduction Act, may slow efforts to reverse clean energy gains. Furthermore, 2024 international investment in green technologies was double fossil fuel investment, and climate advocates believe the transition to green energy is resilient enough to withstand policy shifts. Even if Trump rolls back climate policies, private-sector momentum—exemplified by Elon Musk's continued electric vehicle production—will likely persist.

It is also important to remember that Biden also faced criticism for expanding fossil fuel permits, complicating his climate goals. In fact, the world got much greener under Trump's last presidency, and

browner under Biden, emphasising how one person can often have limited impact on the machinations of the wider world.

Sustainability Disclosure Requirements (SDR)

Not only is the outlook for sustainability focused opportunities evolving but the regulatory landscape is too. The Financial Conduct Authority (FCA)'s landmark Sustainability Disclosure Requirements were initially lauded for their non-hierarchical, labelled approach which promoted diversification of thought and process. Sustainability means different things to different people and TAM agrees that this was the best mould for the future of this industry. Fund manager applications have caught headlines in 2024 as they reached the closing stages, only to have to repeat the process in a purposely non-prescriptive approach which, albeit frustrating, has led to a high barrier of entry. Conducive to what those who opt to invest sustainably deserve. We are pleased to announce that, at time of writing, two of the funds in our Sustainable World portfolios have received the Sustainability Focus label and one has achieved the Sustainability Impact label, with the majority of the funds we invest in in the application process as we speak with finalised labels announced in 2025. This is a highly promising development for the sustainability investment market as we all endeavour to increase the transparency and trust between asset managers, DFMs, IFAs and end clients on their investment journeys.

The Global Stage

Donald Trump and his promises of tariffs foreshadows an acceleration of the already deglobalising trends in our world. The previous decades had seen the various players making up the global economy increasingly united in trade with their unity extended into efforts to combat climate change. Now, reshoring, onshoring and friendshoring, policies of reclaiming supply chains and bringing them closer to home, are endemic of a more insular approach. The 29th Conference of the Parties (COP29) went some way in depicting this with the $300bn promised by developed nations to developing nations in climate finance each year to 2035. On the surface, an incredible sum but it fell far short of the $1 trillion hoped for by the developing world. 95% of the growth in emissions has come from the developing world in the last decade but this proved too difficult a topic to fully address in the 29th UN climate change conference, the third in a row held in an authoritarian state. However, a large breakthrough was made on the operational ease of trading in carbon markets and some strong net-zero pledges with the UK setting an ambitious 81% cut of 1990 carbon emissions by 2035.

TAM

Investing through a sustainability focused lens remains an evolving discipline, with a myriad of factors and inputs to consider. It is our commitment to clients to manage the portfolios on a short-, medium- and long-term basis meaning that we pay attention to the political cycle, growth trends and investment flows as well as the big picture. Considering this, our key takeaways for 2025 and beyond are the following: Firstly, the environmental and social issues that TAM's Sustainable World portfolios incorporate into our investment decisions are growing ever more critical. Climate change is real and having a devastating effect while our society is seeking solutions to an increasing prevalence of ailments.

Secondly, it is crucial to remember that political cycles have proven to have limited, if even non-consensus effects on the performance of sustainability focused assets. To illustrate, the previously referenced Global Alternative Energy index returned a whopping 150.66% during Trump's initial presidency while so far

returning -55.96% during Biden's pro-green tenure (FE Analytics).

The next key takeaway is that despite my persistent references, the transition to a more sustainable economy is much more than the transition to renewable energy systems. In fact, the polarisation and politicisation of the energy transition overlooks many investable assets contributing positively to the UN's Sustainable Development Goals which are enjoying strong investment returns. The active managers we have chosen build their funds to be positioned for these moments of strength. These funds are receiving the stamp of approval from the FCA, in what we believe will prove to be a watershed moment for sustainability focused investing. Increasing transparency and trust in a part of the market which has seen incredible innovation in the last decade. Lastly, as the myopic view of US exceptionalism rumbles on, and we do remain invested in this momentum to a degree, there are a series of attractive valuations in focus for those investors who want to invest in embedding environmental and social considerations in their portfolio.

As TAM bypass our tenth year of investing in this way, we are feeling incredibly optimistic about the outlook, especially for those joining us on this journey.

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