Stellar AiM IHT Service

Sustainability Spotlight
December 2025

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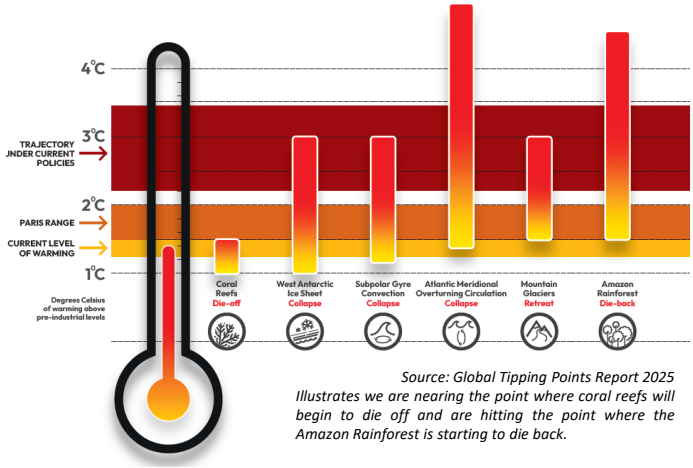
ESG, You're Fired!

The green mandate continues to turn ever more '**orange**'. **Mr Trump** continues to beat the drum that the regulations and red tape required by ESG (Environmental, Social, and Governance) are counterproductive, both to growth and "getting things done". While we, unusually, agree with Mr Trump on the sentiment of sensible and pragmatic regulation, 'the climate hoax' narrative is a little unnerving.

Through the climate lens, the green mandate looks less 'orange' than it does '**red**'. We know the warnings can feel repetitive, but the crisis is real. Each year brings new records, and this year is record-breaking for released tonnes of CO_2 into the atmosphere, as every consecutive year has been since records began in 1957. ESG commentary, understandably, has become a 'broken record' on records broken.

What was more concerning was the increased growth of CO_2 from 2.4 parts per million (ppm) per year, between 2011 to 2020, to 3.5ppm from 2023 to 2024[1]. The **largest single year jump ever seen**. Why? Natural carbon sinks (e.g. forests) are only absorbing one quarter of their usual CO_2. This is due to extreme wildfires and deforestation, with old-growth tropical forests being replaced by younger forests, estimated to have reduced annual stored CO_2 by 140 million tonnes annually[2].

To top things off, it is **likely we have breached the first global tipping point**[3]; the reduction in coral population as a result of ocean temperature rises. Coral supports 25% of maritime life, which in turn supports over 500 million people reliant on reef fishing. Reefs also act as a natural carbon sink and weaken ocean currents which protect many shorelines from oncoming wave damage. Recently, the commentary has been shifting from prevention to mitigation, as it becomes clearer that we aren't doing enough. ESG is being fired amidst the inferno.



Source: Global Tipping Points Report 2025
Illustrates we are nearing the point where coral reefs will begin to die off and are hitting the point where the Amazon Rainforest is starting to die back.

1. World Meteorological Organisation, 2025
2. Besnard et al., 2025 - Global covariation of forest age transitions with the net carbon balance
3. Global Tipping Points Report 2025

Our belief is that companies making efforts now to mitigate and reduce carbon emissions, will thrive as temperatures rise, driving the decarbonisation theme. ESG is both an opportunity and a diversifier; we can engage with companies to improve, and intentionally blend 'green', 'brown', and 'neutral' stocks in the portfolio, as it is becoming clearer that they have low-correlation and can have short, sharp inverse reactions depending on ESG sentiment. We see the greatest potential by engaging with 'brown' stocks, which are often overlooked by traditional ESG investors. Overleaf, we show some examples of in-year engagement, and what a 'green' and 'brown' stock means to us.

At the portfolio level, we have completed a round of scoring for our companies, marking each out of a possible 40 points. Pleasingly, we see improvement across each of the E, S, G, and the direction of travel (DOT). Last year we noted that the DOT had dipped slightly, we are pleased to see the DOT rise this year, indicating increased focus from our portfolio companies.

Year Scored	Average Score	E Average	S Average	G Average	DOT Average
2024	28.43	6.54	7.74	7.40	6.74
2025	29.31	6.75	7.84	7.63	7.09
Change +/-	0.88	0.21	0.10	0.23	0.35

Source: Stellar Asset Management - based on scores conducted on all companies held during 2024 and 2025

Looking at like-for-likes, being those companies that we scored both this year and last, we see greater levels of improvement across the board. We put this down to a combination of selecting companies with an existing focus on ESG, and our engagement efforts, some of which we show overleaf.

Year Scored	Average Score	E Average	S Average	G Average	DOT Average
2024	28.08	6.65	7.50	7.27	6.65
2025	29.77	6.77	8.04	7.81	7.15
Change +/-	1.69	0.12	0.54	0.54	0.50

Source: Stellar Asset Management - based on scores conducted on companies held in both 2024 and 2025

For additions to the portfolio, we prefer companies that have some focus on ESG, but with plenty of room to improve. Ideally, new companies score in the 24-30 range, where we see the greatest opportunity to engage. Pleasingly, all six new additions in 2025 fell within this range. We operate a 'strivers to drivers' approach and, currently, we have plenty of 'strivers' we can engage with to improve.

Year Scored	Average Score	E Average	S Average	G Average	DOT Average
2025	27.33	6.67	7.00	6.83	6.83

Source: Stellar Asset Management - based on scores conducted on companies acquired during 2025

Despite our focus on decarbonisation, the E scores remain relatively low across the portfolio compared to the S and G scores. The biggest challenge for the E is lack of consistency of carbon emissions disclosure. Given much of the portfolio is improving on an underlying basis in the S and G categories, our engagement this year will be focused on improving the consistency of disclosure in the E.

The Property Franchise Group (TPFG) – (504p[4])

TPFG is the UK's largest property franchisor. They have a portfolio of 18 brands which they license to franchisees, covering estate agency and lettings services for residential clients across the UK. More recently, they expanded their financing and licensing arms through large-scale merger and acquisition. Not an obvious ESG stock, falling into the 'neutral' bucket, last year TPFG fell below our hurdle of 24, scoring only 21. We informed them they had 18 months to improve, including suggestions, or we would divest.

They suffered from a classic lack of disclosure, not limited to; failure to include energy consumption, CO_2 emissions, gender split statistics, health and safety statistics, and various ESG policies in their annual reports. Pleasingly, new CFO Ben Dodds has been highly engaged, and we see a much-improved commitment to ESG. All of the above is now reported, including detailed carbon reporting which has pushed the score from 21 to 32.

Nexteq (NXQ) – (88.5p[4])

NXQ is a UK-based technology group focused on gaming hardware and industrial display solutions through its brands Quixant and Densitron. We consider them "brown" for ESG, because core revenue derives from the gambling industry, linked to social concerns such as addiction and harm. Additionally, manufacturing relies on energy-intensive global supply chains, contributing to higher emissions.

Despite being 'brown', which we mark them down for, they scored 26 this year, putting them firmly in our sweet spot for engagement. Like most companies on AIM, they are lacking in disclosure. For example, companies group emissions into three scopes: direct, indirect from energy, and Scope 3, which covers all other indirect emissions across the value chain like suppliers, product use, and waste. NXQ don't disclose their scope 3, so we seek to engage to either push for disclosure or understand why it isn't disclosed.

Eco Animal Health Group (EAH) – (98p[4])

EAH produces medicines, including its flagship antibiotic Aivlosin, to keep farm animals healthy and prevent disease. This supports ESG by improving animal welfare, indirectly supporting food safety (Social) and is a more classical 'green' stock, providing obvious social good.

We engaged with them back in 2023, when they scored 29. Engagement highlighted 16 areas for improved disclosure, including improved board gender mix and independence, waste production, and water consumption statistics. They were highly responsive and have clearly worked hard in the background to take on board our recommendations, rising to 31 last year and to a record score of 37 out of 40 this year. They are now what we would call a 'driver'; we believe they set the standard for AIM companies on ESG disclosure.

Jack Pedley
Assistant Fund Manager

Jack joined Stellar in January 2023 to support Stephen English and Phil Kirwan with the management of the Stellar AIM IHT Service. He has a background as a Chartered Accountant from Grant Thornton and previously helped manage equity derivative products at Bank of America. Jack holds the ACA and ACSI designations as well as the CFA Certificate in ESG Investing. As a keen Evertonian, he finds himself on an unending search for improvement!

4. Share Price as at 01 December 2025
Images are taken direct from associated company websites.