RESPONSIBLE AND SUSTAINABLE EUROPEAN EQUITY FUND

COMMENTARY FOR QUARTER TO END MARCH 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	7.37%	19.04%	46.68%	20.51%	60.86%	110.11%
FTSE World Europe ex UK TR GBP	2.44%	11.88%	34.86%	27.31%	69.74%	114.35%
IA Europe ex UK	2.46%	12.53%	39.63%	25.16%	64.47%	117.73%
Sector Quartile	1	1	1	3	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

REVIEW

European equity markets continued to perform strongly over Q1 as the rollout of Covid vaccines gathered pace in the developed world, even though the EU experienced delays due to a misjudged vaccine programme from Brussels and national governments. The upward revisions to global growth as we start to move forwards into a post-Covid environment raised investor sentiment, especially towards companies with exposure to cyclical areas of the economy.

PERFORMANCE & ACTIVITY

The Fund sharply outperformed its benchmark and the wider sector average over the quarter benefitting from its contrarian, value-orientated approach to investment which resulted in it being disproportionately exposed to 'value cyclical' companies. These companies have been the primary beneficiaries of improved investor sentiment on the basis of a stronger global economic outlook.

The strongest performing sector over the quarter proved to be Energy, where the fund has no holdings due to its high carbon intensity and negative environmental impact. This provided a headwind in terms of the relative performance which was compensated for by overweight allocations to industrials and financials which benefitted from the cyclical upswing, and underweight exposure to more defensive areas of the market such as consumer staples which were left behind in the broader equity market rally.

Many of the best performing holdings over the quarter were those perceived to benefit from stronger economic growth in the post-Covid environment including industrial companies such as the likes of Rexel, Saint Gobain, Mersen and Siemens. Other names to perform strongly included the fertiliser company, Yara, the tyre manufacturer, Michelin and the advertising company Publicis.

PostNL also performed strongly as it benefitted from both the consolidation of the postal market in the Netherlands and strong structural growth for parcels from e-commerce. Banks also numbered among the best performing stocks as they benefitted from the prospect of stronger growth and higher interest rates and bond yields in a post-Covid environment.

More defensive holdings performed less well amid the cyclically-driven upswing, with pharmaceutical companies as notable laggards. This resulted in the likes of Roche, Novartis and Merck KGAA delivering negative returns, whilst utility companies such as Enel and Greencoat Renewables also under performed.

In terms of trading activity the Fund established one new position in the Dutch bank, ABN Amro which in valuation terms had been somewhat left behind as the rest of the sector moved up sharply. We believe there is still considerable upside from the banking sector as stronger economic growth feeds through to rising bond yields and stronger growth leads to both falling provisions and stronger loan growth.

The Fund trimmed a few strongly performing cyclical names including Saint Gobain and Smurfit Kappa though added to a holding in Indus Holdings AG which invests in German 'middlestadt' engineering companies and should benefit from the stronger economic activity. In a rare departure from our long term investment strategy the Fund took advantage of the sudden upward spike in Nokia's share price as Reddit/Gamestop speculators from the US bought in to 'burn the shorts' to take some profits whilst re-establishing our position after it had fallen back to earth. We continue to believe the company looks good for the longer term.

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OUTLOOK

Europe continues to lag the US and UK in terms of vaccine rollout with countries even forced to reintroduce lockdowns for the second and third times. In spite of this, companies are still benefitting from the global economy recovery driven by China the US and the UK. Even in Europe the rollout is gathering pace and a return to economic and societal normality appears not too long off. Monetary and fiscal policy remains accommodative across the globe which continues to favour more cyclical areas of the economy where the fund remains overweight. We continue to believe that 'value' areas of the market are still undervalued, especially compared to the eye watering valuations that many 'growth' stocks are trading. The Fund is increasing its overweight position to banks as we believe there is still considerable upside, as unlike the credit crisis, they have come through with strong balance sheets and may well be able to write back some provisions they made during the height of the Covid. In this environment the Fund will maintain its strong 'value cyclical' bias even if it does trim some of the best performing names and increase exposure to some 'value' defensive areas of the market such as pharmaceuticals.

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