RESPONSIBLE AND SUSTAINABLE EUROPEAN EQUITY FUND

COMMENTARY FOR QUARTER TO END MARCH 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-2.71%	-0.99%	6.48%	33.11%	32.17%	156.88%
FTSE World Europe ex UK TR GBP	-7.06%	-2.36%	6.51%	32.21%	41.38%	157.63%
IA Europe ex UK	-7.61%	-4.13%	4.34%	32.17%	38.10%	152.20%
Sector Quartile	1	1	2	2	3	2

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

REVIEW

European equities fell sharply over the course of the first quarter of the year. The Russian invasion of Ukraine exacerbated concerns that had previously been weighing on markets, such as runaway inflation (especially in relation to energy and commodity prices) and supply chain disruptions. Heavy economic sanctions were imposed on Russia, and the US banned imports of Russian oil and gas. Europe is at greater risk of suffering an economic slowdown as a result of the war in Ukraine than the US, given European dependence on Russian gas. At one point futures contracts linked to wholesale European gas prices, which last year traded as low as €16 per megawatt hour, surged to €285 per megawatt hour. Despite these concerns, business confidence remained buoyant, with PMI indices remaining in expansionary territory. The European Commission announced a plan called RePowerEU to reduce its dependence on Russian oil and gas by accelerating the development of renewable energy sources. While they hope this will have made a material difference to Europe's energy security by the end of the year, the level of energy independence now seen as desirable could take several years to achieve. Over the period under review, annual consumer price inflation in the Eurozone came in at 5.1% in January, 5.9% in February, and 7.5% in March. Unlike the US Federal Reserve and the Bank of England, the European Central Bank did not raise interest rates over the quarter, although it has stated it does not rule out a rate hike in 2022.

PERFORMANCE & ACTIVITY

The Fund declined over the course of the quarter, generating a return of -2.7%, nevertheless materially outperforming its FTSE World Europe ex UK TR GBP benchmark, which returned -7.1%.

The fund benefitted from being overweight France and Spain, which, despite declining, both outperformed the broader European market. Having said this, performance was more clearly driven by sector and stock selection effects than geographical allocation. The main drag on performance over the quarter was that the fund, given its responsible and sustainable investment approach, had no exposure to the Energy sector, which was the only sector in Europe to post a positive return over the quarter. The fund also had no allocation to the Technology sector, largely on valuation grounds. This was highly beneficial, as this rate-sensitive sector was Europe's worst-performing sector over the quarter.

OUTLOOK

Central banks around the world are currently faced with the dilemma of how to raise rates to tackle rising inflation while simultaneously dealing with a potential economic slowdown brought on by energy price rises and supply chain disruptions exacerbated by the war in Ukraine. The European Central Bank has been slower than others to respond. This may have been supportive of markets in the short term, but places the region at greater risk of runaway inflation over the longer term. This makes for a challenging investment environment, but there is some compensation for this risk in terms of lower valuations in Europe relative to other developed markets, generating opportunities for selective stock-pickers. We believe our focus on companies with high and sustainable earnings and cash flows operating in defensive areas of the market should be robust to inflationary pressures.

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