RESPONSIBLE AND SUSTAINABLE EUROPEAN EQUITY FUND

COMMENTARY FOR QUARTER TO END JUNE 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	5.43%	13.21%	27.12%	25.92%	67.99%	117.04%
FTSE World Europe ex UK TR GBP	8.27%	10.91%	22.83%	33.30%	76.35%	125.03%
IA Europe ex UK	7.09%	9.66%	23.73%	29.10%	72.26%	129.41%
Sector Quartile	4	1	1	3	3	3

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

REVIEW

European equity markets performed strongly over Q2 as the economic expectations continued to be bolstered by vaccine rollout across the developed world. Whilst Europe may lag the US and UK by a few months the benefits are increasingly being felt by European companies with profit surprises heavily outnumbering disappointments. There was a switch in market leadership during the quarter with value giving away to growth as bond yields began to decline as investors placed their faith in central banks keeping interest rates lower for longer despite increasing warning signs of that stronger growth was driving inflation higher.

PERFORMANCE & ACTIVITY

The Fund performed strongly in absolute terms with a return of 5.43% over the quarter but underperformed the sector and the benchmark as its value orientated approach proved a headwind as falling bond yields favoured growth areas of the market. The Fund remains well ahead of both benchmark and sector year to date supported by the strong performance of value cyclicals over this period.

On the whole sector exposures had a negative impact on performance with the most notable impact coming from the Energy sector. The strong oil price drove high returns from the energy sector over the period where the fund had no exposure due to its Responsible & Sustainable approach to investment which excludes companies with such prolific carbon intensity. We believe the long term outlook for the oil & gas industry remains bleak as developed markets increasingly look towards more environmentally friendly forms of energy.

The best performing companies over the period included both economically sensitive stocks and those which benefit from the opening up of society following the end of lockdown. Hugo Boss was one of the strongest contributors as the end of lockdown encouraged consumers to upgrade their wardrobes through e-commerce and store sales. Economically sensitive equities to perform strongly included those with exposure to the construction sector including Saint Gobain and Rockwool, the port operator, Hamburger Hafen, and the French bank, Societe Generale.

Other companies which performed strongly included those with exposure to the rapid growth in e-commerce over the last couple of years including holdings in the packaging company DS Smith and PostNL. The greatest overall contributor was Nokia which benefitted from positive newsflow from the company in terms of contract wins and more rapid than expected progress in solving some technological issues.

In a market driven by lower interest rates and rising growth expectations many defensive holdings were left behind including the healthcare equipment manufacturer, Philips and the telecommunications companies Orange and KPN. The holding in ABN Amro also performed poorly after a weak set of results. Insurance companies such as Munich Re and Talanx also fared poorly as bond yields fell.

The largest transaction over the period was the purchase of Mapfre SA, a Spanish composite insurance company with life assurance, general insurance and reinsurance in Spain, Portugal and Latin American countries as well as other international markets. The company was trading on a sharp discount to book value, a low price earnings ratio and offering a dividend yield in excess of 7%. The company also has strong ESG policies and is over 60% owned and controlled by a charitable trust whose ethos flows through the company and ensures most profits ultimately go to charity including providing PPE during the Covid outbreak to developing countries.

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The fund also added to some more defensive areas of the market which had been left behind in the economic cyclical rally including the french supermarket group, Carrefour, and the French and Swiss pharmaceutical companies, Sanofi and Roche. At the same time the fund trimmed back on some of the value cyclical names in the portfolio as strong performance increased both the size of their holdings and the already overweight position to value cyclicals in the Fund as a whole. Sales included the Dutch postal company, PostNL and French electrical and electronic distribution company, Rexel.

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 pandemic. 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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