RESPONSIBLE AND SUSTAINABLE UK EQUITY FUND

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-10.48%	-21.57%	-17.46%	-5.35%	-1.35%	75.57%
FTSE AllShare TR GBP	-5.04%	-4.57%	1.64%	7.41%	17.77%	94.61%
IA UK All Companies	-8.33%	-12.86%	-8.58%	3.60%	10.71%	94.07%
Sector Quartile	3	4	4	4	4	4

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

REVIEW

The UK and US markets generally performed poorly in the quarter largely due to the increasing determination of central banks to tackle persistent inflation and increasing concerns about global economic growth. The conflict in Ukraine has seen the US, UK and EU respond with more financial sanctions and economic pressure against Russia which has contributed to higher commodity prices and fed into cost-of-living pressures. The Federal Reserve increased the federal funds rate by 0.75% to a target rate of 1.5-1.75% and all signs point to further rate increases in order to tackle inflation.

The prime minister survived a confidence vote from within the Conservative Party, although 41% of his MPs voted that they had no confidence in him. The Bank of England voted to raise interest rates by 0.25% to 1.25% although some members voted for a larger 0.5% increase. All the UK indices were in negative territory in the quarter.

Elsewhere, the Brent Crude oil price increased and remained above $100 in the quarter largely due to the conflict in Ukraine and the consequent international boycott of Russia. The European Central Bank announced that it was planning to raise rates in July for the first time since 2011 and also to stop its bond buying programme.

PERFORMANCE & ACTIVITY

UK markets have been especially challenging for ESG investors, who are facing a near perfect storm of headwinds, where the sectors they generally avoid (Tobacco, Oil & Gas, Mining and Aerospace & Defence) are outperforming due to macro and geo-political tensions. The dominance of small and mid-cap companies in most ESG portfolios has been another source of underperformance, with mainstream investors adding to large cap value and cyclical names. Fund performance was aided by an overweight position in Software & Computer Services, Chemicals and Media and underweight positions in Closed End Investments and REITs, as well as zero exposure to Industrial Metals & Mining. Overweight positions in Pharmaceuticals & Biotechnology and Electronic & Electrical Equipment, an underweight position in Banks and zero exposure to Oil, Gas & Coal and Tobacco were a drag on relative performance.

Fund activity included increasing our positions in Next, Genus, Strix, Victrex, Mears, Taylor Wimpey, Prudential, Oxford Instruments, Phoenix, Rentokil, Sabre Insurance, National Express, Impax Environmental Markets and Greencoat UK Wind. New positions were initiated in Intertek and the London Stock Exchange. The holding in Menzies which was subject to a successful bid was sold off entirely. At a stock level, Spectris (Electrical Equipment), Bioventix (Pharmaceuticals & Biotechnology), NCC (Software & Tech Services) and Menzies (Industrial Services) were amongst the biggest contributors to performance, whilst detractors included Marshalls (Construction Materials), Wise (Software & Tech Services), Halma (Electrical Equipment) and Hotel Chocolat (Consumer Staples).

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OUTLOOK

The continuation of the conflict in Ukraine will likely see continued high commodity prices, high inflation and increasing recessionary fears. Attempts in China to deal with coronavirus outbreaks could lead to supply chain disruptions which could impact global economic growth. Mistrust still exists between the UK and EU, largely over the Northern Ireland protocol, and the Northern Ireland protocol bill is likely to exacerbate tensions between both sides. Increases in the cost of living could have negative implications on consumer spending. Labour disputes could be a feature going forward as wage increases fail to keep pace with inflation. European economic activity is likely to be impacted by its proximity to the conflict in Ukraine. President Biden will continue in his attempts to pass his policy agenda through Congress, amidst low poll ratings and a slowing economy, although this will be tough given the wafer thin majorities held by the Democrats in both houses of Congress. Central bankers around the world have begun to increase interest rates in order to combat inflation and the economic impact of less accommodative monetary policy remains to be seen. While, as ever, some political and economic risks lie ahead, we remain focused on finding new opportunities in companies that meet our strict criteria of strong earnings growth, high margins and strong cash flows. The Fund continued to take in material inflows in the period and is well positioned amid the highly challenging and volatile landscape.

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