RESPONSIBLE AND SUSTAINABLE UK 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)	4.60%	9.39%	21.70%	12.34%	42.63%	116.02%
FTSE AllShare TR GBP	5.60%	11.09%	21.45%	6.28%	36.86%	85.47%
IA UK All Companies	5.57%	11.65%	27.35%	10.86%	48.25%	102.71%
Sector Quartile	3	4	3	2	3	2

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

REVIEW

The UK markets performed well in the quarter largely due to the continuing successful vaccine rollout and gradual loosening of lockdown restrictions which has led to improved economic recovery whilst the US markets also performed well. President Biden continued with attempts to implement his policy agenda most notably with his bipartisan attempts to pass a large infrastructure bill. The Federal Reserve provided mixed messages regarding the future path of interest rates with the strong economic recovery leading to expectations of two interest rate rises in 2023 although Federal Reserve Chairman Powell was eager to play this down.

The UK gradually began its path out of lockdown restrictions although the prime minister announced a delay in the move to step four of the government's coronavirus easing plan, which would have led to a full reopening in England, due to the rapid spread of the Delta variant. The Bank of England unanimously voted to maintain interest rates, and by a margin of 8-1 the pace of quantitative easing whilst also upgrading the outlook for the UK economy. The vaccination rollout programme continued apace with a large proportion of the population having had their first vaccine dose. Following rising tensions between the UK and the EU regarding the Northern Ireland protocol, the European Commission approved a three month extension to a grace period on restrictions on chilled meat exports into Northern Ireland. The UK indices were in positive territory in the quarter with the FTSE small cap performing relatively better than the FTSE100 and FTSE 250.

Elsewhere, the oil price was strong in the period, due to positive vaccine rollout news and demand recovering strongly. The quarter saw falling infection levels and lockdowns being lifted in Europe and the vaccine rollout gathered pace after a slow start. Despite increasing its forecasts for Eurozone growth and inflation, the European Central Bank announced that it would maintain the pace of its purchase programme.

PERFORMANCE & ACTIVITY

Fund performance was aided by overweight positions in Electronic & Electrical Equipment and Medical Equipment & Services and underweight positions in Banks and zero exposure to Tobacco. Overweight positions in Industrial Transportation and Life Insurance and underweight positions in Beverages impacted performance. At a stock level, Dechra (Animal Health), Oxford Instruments (Industrial Products), Halma (Electronic & Electrical Equipment) and Victrex (Materials) were amongst the biggest contributors to performance whilst detractors included Clinigen (Healthcare), James Fisher & Sons (Industrial Services), National Express (Transportation) and WH Smith (Consumer Discretionary).

Fund activity included starting a position in Mattioli Woods, a provider of pension consultancy and wealth management services. We increased our positions in Porvair, Lloyds, Taylor Wimpey, Smith & Nephew, Marshalls, Berkeley, Rentokil, WH Smith, Bioventix, Sage, Keller, Spectris, Mears, National Express, NCC, Hotel Chocolat, Ferguson, James Fisher & Sons, IP Group and Phoenix. We trimmed the positon in Halma on the back of strong performance. We sold out of Scapa, Pennon and Severn Trent. Despite the market's volatility we continue to find companies meeting our demanding criteria of business models that can generate earnings growth across the economic cycle.

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OUTLOOK

Despite the three month extension to the grace period, mistrust still exists between the UK and EU and the Northern Ireland protocol is likely to see increasing tensions between both sides. All signs point to most lockdown restrictions being lifted in the UK on July 19 which could see stronger than expected economic performance but also increasing infection rates which could prove problematic if it leads to increasing hospitalisation rates. Government funding of the furlough scheme will begin to be tapered and coupled with the withdrawal of other government support measures could prove challenging for businesses. European economic activity is likely to be strong as the vaccine rollout programme improves following a slow start. President Biden will continue in his attempts to pass his policy agenda through Congress although this will be tough given the wafer thin majorities held by the Democrats in both houses of Congress. Central bankers around the world will continue in their quest to ascertain whether the current inflationary environment is transitory or permanent and this will have implications for the future path of interest rates and support programmes. 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's performance has held up well versus the benchmark over 1, 3 and 5 years and continues to take in material net inflows despite the UK being an unloved market by fund buyers.