RESPONSIBLE AND SUSTAINABLE GLOBAL EQUITY FUND

COMMENTARY FOR QUARTER TO END SEPTEMBER 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.5%	-11.6%	-17.1%	10.0%	21.0%	101.4%
FTSE World TR GBP	1.8%	-7.4%	-3.0%	26.6%	56.0%	217.3%
IA Global	2.5%	-8.0%	-8.5%	20.2%	42.2%	161.6%
Sector Quartile	3	3	4	4	4	4

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

REVIEW

Global equities delivered a total return of 1.8% (in sterling terms) over the third quarter. The period began with a short relief rally that ended in September, as higher US inflation figures yet again set the stage for a firmer interest rate response from the Fed. Unprecedented currency moves ensued, with the US dollar climbing higher, whilst the announced unfunded tax cuts in the UK led sterling to decline c.8% comparatively. Despite all the macro turbulence, the Inflation Reduction Act in the US was a significantly positive policy development. A key component of the bill is to support the transition to clean, reliable and affordable energy creating jobs in the process – welcome government support which should help drive opportunities in this area amidst challenging short term conditions.

PERFORMANCE & ACTIVITY

The Global Equity Fund fell 0.5% in sterling terms over the third quarter, underperforming the FTSE World benchmark total return of 1.8%. The most impactful detractor to performance was currency related, with our underweight in dollar weighted assets and overweight to UK affected by the dollar/sterling bifurcation.

From an allocation perspective, the best performing sector was the defensive consumer staples segment where we have limited exposure given it includes tobacco and beverages, which typically do not pass our negative screens. Energy was again a strong performing sector, as Russian gas supply to Europe was significantly restricted over the quarter, leading to even tighter supply projections across the bloc and higher prices. The fund has no exposure to oil & gas which was a notable headwind.

At the stock level, top positive contributors included Advanced Drainage Systems (US), Valmont Industries (US), Sporton International (Taiwan) and PayPal (US), while detractors included Adidas (Germany), Avient (US) and Royal Philips (Netherlands).

We took the opportunity to again manage our risk and reduce our overweight exposure within the industrials sector, trimming US holdings Advanced Drainage Systems which had rallied an impressive 50% over the quarter, as well as Federal Signal. We also added to our new position in French waste management leader Veolia, which offers an attractive yield. This is a position we have grown as we expect to lose UK-based waste management specialist Biffa to a takeover.

OUTLOOK

The upcoming earnings season will be a revealing one, as the changing macro environment filters through to corporate numbers. Rising rates will pressure corporate balance sheets, pinch households dealing with inflation further and disproportionately impacting the vulnerable. Energy will continue to be an important swing factor over the winter, with the risk of power downs in Europe dependent on the weather. Indeed, this backdrop has acutely exposed the economic vulnerability arising from a global energy mix heavily tied to fossil fuels and subject to high geopolitical risk. Clean, affordable and decentralised energy appears the only tenable long term solution to prevent crises like this reoccurring. We have seen from the rapidly enacted REpowerEU plan that governments are even more incentivised to respond. As mentioned earlier, during the quarter the US introduced the Inflation Reduction Act, which placed the clean energy transition front and centre.

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The bill included extended tax credits for renewable energy projects such as wind and solar, which are supportive for a range of holdings in the US associated with renewable energy, including businesses that supply financing, specialist equipment and manage infrastructure.

Moreover, the rising costs of fossil fuels and reducing costs of renewable energy, due to technology advancements, has made this transition an increasingly economical one. Still, the imperative of clean energy investment cannot be overemphasized, an estimated $13.3tr is needed through to 2050 to pivot away from fossil fuels.

Clearly the short term outlook is complex; however opportunity can still be found in opacity. It is times like these where we can double down on our speciality – investing in sustainable solutions-orientated companies, at reasonable valuations, supported by long term themes and robust cash flow.

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