Fund Managers Report 28th June 2019 to 30th September 2019

Although more volatile, the last quarter saw equity markets generate a modest return in sterling terms, ranging from about 0.6% for global equities, 1.2% for UK and 1.9% for global ESG equities. We have seen portfolios perform within this, albeit with a lower level of risk. On a twelve-month basis, returns would be 4.7% for global ESG[1] market, which was in line with UK equity performance for the same period.

In our last report in June, we noted that the economic outlook had changed for the worse, and with it, interest rate expectations. This remained the dominant concern for markets over the last quarter. Growth estimates have been lowered, but more concerning has been the dreadful forward-looking economic data for Europe. The US Federal Reserve and later the European Central Bank both responded with soothing words, lower interest rates and a looser monetary stance.

As we enter the last quarter of 2019, the question investors are asking, is has enough been done to prevent the slowdown from accelerating into a recession? Largely, global equities have priced in lower earnings growth for the last quarter of 2019, but nothing further, so economic developments in the next quarter will remain paramount. In the US, we expect the interest rate cuts to have an impact, in Europe, where rates were already negative, there is little more that the ECB alone can do, and the problem remains the continued failure of European politics to address the issues.

In fact, alongside global economic concerns, global politics remains the key risk for markets over the next quarter. By far the biggest uncertainty remains the aggressive US trade policy, hitting not only China and the US, but also Japan and Europe. It does not help that China has issues with Hong Kong, whilst the US warms up for elections in 2020, adding more heat to the issues.

Brexit just rumbles on, as frustration grows within Westminster and beyond, with Sterling the main shock absorber. Events will hopefully come to a head in next few months. Whilst we expect a deal one minute before midnight and then a general election, we are prepared for all scenarios.

Grabbing less headlines but also important are changes at the top level of Europe and we feel the new leadership of the commission and the ECB are a substantial improvement. The commission leadership under Juncker has been at best dire, so we now expect more energy

[1] Based on MSCI Global ESG index in Sterling terms

and sense from Brussels. Far more relevant to the markets is Christine Laggard taking over the ECB, at a time when tensions are at an all-time high. The ECB will need to set a new course and this will have significant ramifications for Eurozone bonds, given the ECBs aggressive bond buying over the last few years.

Finally, risks in the Middle East cannot be ignored, although Iran's attack had limited impact on global oil, the tensions on the long running proxy war are becoming more pronounced.

Whilst we have always lived in an uncertain world and markets are more than able to live with this uncertainty, we enter the last quarter of 2019 knowing that if trade wars are averted and Brexit resolved, there is a vast amount of money waiting to be invested. Whilst we have been running a lower risk level into the uncertainty, and whilst we remain cautious, we feel the last quarter will present a number of good investment opportunities. Cash may therefore appear higher as a result, but we expect to deploy this as opportunities present themselves.

Key Ethical and Impact issues

The sheer noise of trade and Brexit has not silenced the global concern over climate change. We are pleased the portfolios remain invested in key areas that address this issue, such as renewable energy. As this sector becomes increasingly mature, it takes a bigger role in the global energy mix, and whilst it did not make great headlines, the last UK offshore wind auction saw prices below £40MWh, showing how competitive the sector has now become; renewable energy in the UK is firmly placed as the second largest source for UK energy. Likewise, we added Smart Metering to some portfolios as the role out of generation 2 smart meters resumes after some technical issues.

The U.K. is only a small country, but we are seeing renewable energy march on in much of Europe and increasingly in the US, China and India (in spite of the political leadership in some cases). We used the weakness to add to TPI Composites, a leading global turbine blade manufacturer, as we see the growth in wind focussing on India, the US and Asia.

The legal ramifications of the diesel scandal are now coming into view, and a good part of the European economic slowdown is due to the declines in automobile production. The electric car is marching on and we have increased exposure via Johnson Matthey (they are invested in battery technology) to add to our smaller investments in this area. For all the woes of the Tesla share price (which we sold much higher a while ago), it remains the fastest growing car company in the world.

With fears of an economic slowdown, infrastructure becomes a favoured play for job creation; we added back Kier (for rail and water infrastructure) and SIG (for property) to portfolios. The two house builders we hold in many portfolios, Gleeson and Springfield, continued to benefit from the much-needed increase in quality home building in the UK, as housing costs remain a drag on household finances and savings. Springfield Homes are building some of the PRS projects for quality rental homes in Scotland.

The move away from plastic is gathering pace, we used the weakness to add to Biffa, a leading recycler, and also to add to Smurfit Kappa who have taken a far more responsible approach to paper and card packaging as an alternative.

These are only some highlights and we have emailed a more in depth impact report on the investments we make in your portfolio.

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