2021
Celebrating 11 years of MPS

Investment Committee Update

April 2021

General Overview

Asset/Region	Current Stance	Previous Stance
US Equities	Neutral View	Neutral View
UK Equities	Positive View	Positive View
European Equities	Selective Approach	Selective Approach
ROW Equities	Cautious View	Neutral View
Fixed Income	Negative View	Negative View
Property	Selective Approach	Negative View
Infrastructure	Positive View	Positive View

There has been limited change in views since our last committee update in March. We continue to favour UK assets including infrastructure. We have shifted our Global Infrastructure into more exciting assets around real estate in healthcare, social housing, and logistics.

As mentioned previously, the re-rating in a number of impact stocks has presented opportunities, whilst the recent rally in bonds has presented an opportunity to scale back here once more.

USA

Post our last meeting we have had the Biden administrations trillion-dollar infrastructure legislation announced. An obvious positive, it had limited sway on the committees thinking as this was largely priced in, and we have therefore not changed our neutral view on the US.

The economic data continues to paint a positive picture, and expectations are for some strong growth numbers moving forward. We note the recent good retail sales figure of 9.8%, but with stimulus cheques from the government received, this was no surprise despite coming above consensus.

The country continues to make huge progress in their vaccination rollout. It is reported that 1.3 million people are being vaccinated daily, and this will ultimately be the key to unlocking the economy fully, and is stark contrast to some other nations.

With stimulus in place, strong data on the wires and the vaccination rollout accelerating, it does make us wonder if we are approaching or have approached peak positivity. The Federal Reserve holds the key here.

Whilst the virus grabs most of our attention, we have recently seen signs of geo-political heat, with the US seeing increased friction with China and Russia, which has the potential to spill over and cause markets some scare.

We have spoken of our belief that the re-rating in many higher impact sectors and stocks was short term, and events played out post meeting that arguably justifies our stance. Joe Biden announced the US would cut emissions by 50% this decade, a more aggressive stance that saw renewable assets bounce. This includes the likes of Vestas Wind Systems (widely held in models and bespoke portfolios), which rose over 10% on the day. As more countries get serious about their climate commitments, or other sustainability challenges, this can create positive re-ratings as more opportunities arise, which will benefit many of the companies within your client's portfolio. The obvious risk is countries moving slower on their commitment, but due to the severity of the task ahead, we feel this is less likely.

UK

We still believe the UK has some good growth prospects, even after the recent positive price action. After years of Brexit wrangling, causing many to avoid the UK, we feel the country's time in the spotlight is here. As with the States, the UK is really accelerating with its vaccination rollout as well, despite dwindling supplies of the vaccine.

Portfolios are exposed to a number of companies that whilst listed in the UK have truly global economic exposure. However, over the last few quarters, we have been seeking companies that have 'true UK' exposure, and these predominantly lie in the small and mid-cap space.

Some of these assets have underperformed in recent years due to concerns over Brexit, a pessimism that was overdone and, in many cases, unjust. However, with this in the rear-view mirror, and the vaccine rollout climbing up the gears, the UK will benefit.

We maintain our holdings in UK infrastructure assets, which naturally leads to exposure to a number of renewable energy projects. The electricity price is something that we monitor on a daily basis, and intraday price volatility is aloft, where negative prices are common at periods in the day. We see this as a natural 'growing pain' of renewables taking a larger share of the electricity grid and not being sufficiently supported by battery capacity just yet.

Nonetheless, we want to remind investors that many of the assets held in this sector have cash flows on long-term contracts, and of course, the UK will be increasing its contracted renewable capacity through more CfD auctions. On the flipside of this, portfolios do have some exposure to utility-scale battery capacity, which can benefit from these supply and demand imbalances. Where possible, we have added to this exposure.

EU

Synchronised global growth will be the continents redeeming feature, largely a reflection of the cyclical nature of European companies. Nonetheless, we remain selective on European assets, with some of the best companies getting a majority of their revenue outside of the Eurozone. We have mentioned the poor vaccination rollout previously, and we have seen more recent lockdowns in Germany and parts of France. Progress has been made and we feel are past peak pessimism for the continent, but this does not change our selective nature for companies and funds in the region.

We see the biggest risk in Europe being the German general elections later this year and yet to get the headlines it may warrant. The Green Party is likely to be the kingmaker in the next election, and depending on who the Green Party goes into coalition with the outcome could be very volatile. The Green Party will be great for renewable energy and sustainable/responsible policies, and this may bring more pressure on the German automakers to raise their game. These car companies have been talking a good game in recent months, but they are used to getting their way with the Government, given their importance. This lobbying is unlikely to work this time.

ROW

As mentioned before, it brings us no joy to state that the blasé attitude in India to COVID has sadly come back to haunt them. Prime Minster Modi has been heavily criticised internally and externally for being too lax in his attitude towards stemming the flow of cases/deaths. He let the Holi festival celebrations go ahead, and he has been pleading with individual Indian states to keep businesses open. An obvious bad move with record infections/death rates, and some hospitals in Mumbai having to have two patients to a bed. Prime Minister Modi has pledged to vaccinate 250 million people by the end of July, but at what cost already? We are still unsure of the outcome of this and we will continue to monitor the situation and exposure in the region, but also the prospect that the mutating virus may begin to spread globally.

Japan is enforcing lockdowns once more, but thankfully, the populous are usually very compliant so we hope these are short-term measures placed on them. The Bank of Japan continues to provide massive support, and many of the Japanese companies are truly global players. The country remains in favour, and we continue to monitor some new opportunities.

We remain underweight on China. Human Rights issues far outweigh any positives we do see here, and we hope global pressure forces China to review their awful actions and respond accordingly. US President Biden may well lead the way here.

Elsewhere we see some interesting opportunities in Taiwan, notably the semi-conductors that are used in many products associated with the green industrial revolution, such as electric vehicles. We do however note the news regarding water shortage issues they have been facing recently.

Inflation expectations

As we keep saying, inflation is coming. We have recently heard from many global companies reporting results that the cost of raw materials is increasing, and these costs will be passed on to the consumer.

When it comes to commodities, the rise is widespread. Copper has surged to a ten-year high, whilst other metals such as aluminium and iron ore push higher, a reminder of the last super cycle when prices rose in the early 2000s, spurred by Chinese urbanisation. Soft commodities are also in the spotlight, take wheat for example; this has climbed to its highest level since 2013 on supply concerns.

Our own anecdotal evidence has seen rises in travel costs, entertainment (TV packages) and even the price of haircuts (although the committee were thankful for the trim!).

The reactions to the inflation problem will vary globally, but most central banks will allow inflation to run above target for a while after many years of lacklustre price pressure. Although the extent to the tolerance of this overshoot, is something that markets are in the dark on, and we have therefore reduced our fixed income exposure as a result.

Global Interest Rates

We see no change in interest rates in the short to medium term, although it appears with the UK and the US vaccine rollout being deemed a success, the BOE and FED could be the first to move higher. As mentioned above, the fight over expected inflation will be key.

Asset Allocation

We have taken the recent bounce back in fixed income to chip away at our exposure here once more. We have introduced an ethically neutral cash plus fund, which brings down the duration of portfolios.

We have introduced a real estate fund back into the portfolios; however, this fund avoids many traditional sectors. It comes at the expensive of our global infrastructure fund that did include some underlying property exposure, however portfolios (depending on risk), will now have direct exposure through a fund of REITs strategy, which we are comfortable holding over a traditional property fund.

Overall equity exposure is largely unchanged, although there were some movements in the underlying funds. Here we added to portfolio's UK exposure by introducing a new fund from NinetyOne asset management. Meanwhile we have removed our last holdings in the CPR Education fund. We had been in consultation with the fund house over their use of US equity futures, but this falls short of client expectations, and we have therefore been rebalancing into our core impact funds.

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Company Information

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