

INVESTMENT COMMITTEE

Back UK equities and bonds, but give property a swerve

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KING & SHAXSON



Little has changed in the last few months, the same political noise and economic concerns dominate the headlines. The month has seen a better than expected US corporate reporting season and so far a mixed early set of corporate reports from the UK and Europe.

Despite the impending election, our view remains the same from the previous investment committee meeting and we see no reason to change our stance. We remain very positive on the UK (both fixed income and equities) on the back of our prediction of less political uncertainty in 2020, a recovery in sterling and increased spending from business, the consumer and government.

DEBT EXPOSURE

The UK remains our favoured market for debt investments for two reasons: first as the role of fixed income remains to reduce risk and volatility, and there is not enough potential elsewhere to justify the currency risk; and that the UK and US are the only markets with a normal and sane yield curve.

One key decision has been to reduce our index-linked exposure in favour of corporate fixed income, as we believe we have had the best of that sub-asset class. Although we expect a substantial pickup in UK economic activity, the inflationary effect will be mitigated by higher sterling. This has led to a reduction in overall debt exposure as we favour equities. In our balanced portfolio, exposure to fixed income fell from 37% to 34% with the focus

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on corporate bond funds. To achieve this we removed the two focused index-linked funds and added the Eden Tree Amity Sterling Bond fund. This fund contains some index-linked exposure and some sovereign debt, and has very little overlap with our existing corporate bond funds.

PROPERTY AND INFRASTRUCTURE EXPOSURE

We continue to keep property exposure limited and away from the UK. The UK commercial real estate market remains overcrowded and structurally imbalanced as power continues to move from landlord to tenant. We see the latter trend as one that could become more global, and as a result property is just 4% of the balanced portfolio.

Infrastructure continues to provide interesting opportunities, although we also have some concern about the crowded nature of this asset class. We have left exposure at 8%.

EQUITIES

Equity markets have remained well supported over the US reporting season and as US monetary policy eases we continue to favour this asset class in the short term. As ethical and impact investors we are pleased not to be exposed in any significant degree to the troubled oil and gas sector where we see the highest risks for equities in the short term.

About 20% of the balanced portfolio is exposed to UK listed equities and we continue to favour a higher degree of

THE OTHER MEMBERS OF THE MPS PANEL



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INVESTMENT MANAGER
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exposure to the UK market, where we feel the risk/reward profile is highest.

Global economic and geopolitical fears appear to have approached a nadir and we see a higher risk to the upside and have taken the view that the outlook for global equities has improved.

On this basis we have added 3% of the portfolio to global equities with a new fund, the Montanaro Better World fund. The fund, just over a year and a half old, meets our ethical and investment criteria and has little overlap with our existing equity fund investments. •

KING AND SHAXSON ETHICAL BALANCED PORTFOLIO

