Market Comment - 24th February 2022

As we mentioned in our last quarterly report, volatility was on the cards heading into the new year, mainly as inflation continued to push accelerated hawkish rhetoric from global central banks, but also because of the geopolitical issues that are 'somewhat nastier' than usual.

With the above in mind, in September 2021, we reduced some of the higher growth exposure in favour of UK focussed income and defensive investments, which would perform better in an inflationary, and subsequent higher rate environment. Following this, we reduced equity exposure further in January 2022.

The somewhat nastier political concerns have unfolded with the Russian invasion of Ukraine, sending energy prices sharply higher and equity markets sharply lower.

Taking a step back, after a strong outperformance in 2020 for ESG and Impact investments, since early 2021 our portfolios had been lagging in the reflation trade and we have highlighted reasons for that previously.

We of course continue to focus on long-term investment horizons, and we understand that you and your clients are concerned at this present time. Although, not of comfort, it is worth noting that conventional markets have now caught up after the market drops this month.

Forward looking

Central Bank rhetoric and subsequent interest rate action have impinged the margin expectations of many of the underlying companies that feature in the funds we invest in. If, given the view that inflation will be a) allowed to run hotter, or b) fall back a lot quicker than anticipated, then Central Banks may not raise rates as fast as predicted. This should provide some relief for growth stocks, and one where we hope the recovery will be fast.

It is important to note, that many of the underlying companies within the models are experiencing continued revenue growth, with strong demand for their goods and services. And importantly, they are relevant now more than ever and will remain so over the next ten years, unlike some of the 'value' stocks that are being gravitated to.

An example of this is Alfen Beheer, a provider of energy equipment, such as storage systems and charging stations for electric vehicles. Their recent results highlighted a beat in both revenue and earnings, and with the continued rollout of EVs and electrification, demand for their products will continue to grow.

Elsewhere, the geopolitical tensions today have brought energy into the limelight once more. It has highlighted the necessity to move away from fossil fuels, firstly due to the sharp rise and need for alternatives, but also to avoid reliance on nations like Russia, which can make the supply of energy a political issue.

As a result, we expect further support from governments to transition quickly, and this is supporting some of our core holdings today. For example, two core holdings in our bespoke portfolios, but also held in the model portfolios, have rallied double-digits (a remarkable move considering markets have declined around 4-5%). Vestas Wind Systems (10% higher) and Orsted (11.5% higher) are at the forefront of the renewable energy rollout, with the latter constructing turbines and the former operating renewable assets, predominantly offshore wind.

We retain confidence in our investment style and ethos that we have held for 20 years. To invest in companies that are disruptive, providing solutions to many of the environmental and social issues we face. We ensure we are investing in companies being responsible and sustainable in both their products and company actions. This is the same for both direct investments and investments through funds.

As a result, we have taken the opportunity this morning to selectively add some equity exposure in bespoke portfolios, and we will update you on any changes in the model portfolios in due course.

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