UK Sustainable Equity strategy

A solid Q3 earnings season eased some of investors' fears

- Higher projections for UK GDP in 2022
- We added to our position in Ceres Power
- The investment team engaged with Moonpig and Accesso over the month

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What's happening?

During the month, the Chancellor revealed higher projections for UK GDP[1] in 2022 alongside larger borrowing cuts than expected. However, stubbornly high oil prices, supply chain bottlenecks, labour shortages and higher inflation intensified concerns among investors – weighing most heavily on Mid and Smaller companies. Nonetheless, with its significant exposure to energy and financials, the FTSE 100 was able to maintain its momentum over the month. It was however a volatile period as concerns mounted around changes in Central Bank policy across the advanced economies, but a solid Q3 earnings season eased some of these fears.

Large caps dominated in another month of solid progress being made by the UK equity market (FTSE All Share +1.8%[2]). The FTSE 100 (+2.2%[2]) outperformed the FTSE 250 ex-Investment Companies (-0.2%[2]), while the FTSE Small Cap ex-Investment Companies (-1.2%[2]) weakened somewhat. Year-to-date, the FTSE All Share index has gained 15.6%[2] on a total return basis.

Excitement has also been building around COP 26 hosted in Glasgow which started on 31st October. Whilst politics is likely to feature strongly, it would be pleasing to see further carbon and methane cutting commitments and progress around stopping deforestation. AXA announced that it will invest EUR1.5bn to support sustainable forest management as part of new commitments to fight deforestation and preserve biodiversity.

[1] GDP: Gross domestic product
[2] Source: Bloomberg, 31/10/2021.

Portfolio positioning and performance

The strategy performed positively in October as quality and growth factors started to perform better in the latter stages of the month. This offset some of the relative performance lost from the underweight position in the oil & gas and banking sectors.

From a stock point of view, London Stock Exchange continues to be a drag on performance. The company reported results which were seen as adequate rather than inspiring. WH Smith provided a cautious view on the likely pick up in their travel revenue in 2022. On a positive note, there were many solid updates during the month with Reckitt Benckiser, GlaxoSmithKline, Convatec, Bytes & Accesso all updating well. Ceres Power & SSE also performed well, as October brought about a renewed interest in clean energy companies.

During October the strategy added to its position in Ceres Power, a fuel cell technology company that generates electricity producing low or even zero CO2 depending on the fuel used and therefore fits nicely within the Planet theme. Although many of the clean energy companies performed very well in 2020, they have lagged in 2021, possibly as a result of the strong rise in the oil and gas commodity price. Following their trading update and our subsequent meeting with management it was felt that the shares were priced at an attractive level to increase the holding.

From an Environmental, Social & Governance (ESG) point of view, it was pleasing to see that Bytes reaffirmed their commitment to paying out 1% of their profits after tax to help fund social initiatives. During the month, we engaged with two 'in transition' companies Moonpig and Accesso. Following ESG analysis performed on NCC, Moonpig and Intermediate Capital, they were deemed as 'in transition'.

The portfolio consists of 63% in companies that are deemed as sustainable leaders and 37% that are 'in transition' and cash.

Outlook

The main driver of equity markets is still the action in the world's bond markets as early October saw yields continue to move higher on inflation concerns and hawkish central bank commentary before falling back later on in the month. Supply chain shortages and rising energy prices continued to feature in October. Restarting economies has proved challenging following the pandemic but as the COVID situation continues to improve these factors could yet prove transitory although they are not expected to ease until early next year.

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