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UK Sustainable Equity strategy

Markets focused on the robustness of earnings numbers as concerns continued on the risk of an economic slowdown

- Safestore have received an Investors in People Platinum accreditation
- Moonpig's card sourcing is now 100% sustainable and diversity has improved in leadership roles
- We saw solid earnings updates from Safestore, Ashtead, DiscoverIE, WH Smith and RWS

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What's happening?

Equity market volatility continued in June as inflation, the rising cost of living, the upward interest rate cycle and the war in Ukraine all contributed to negative market sentiment.

Up until now equities have been under pressure as valuation multiples that investors have been prepared to pay were falling in the face of a higher interest rate environment. In June, worries started to focus instead on the robustness of the earnings number as concerns continued to build around the risk of an economic slowdown. This was brought sharply into focus as the US Federal Reserve increased rates by 0.75% and the Bank of England also raised again with promises of more.

The strategy focuses on high quality companies with structural growth, strong balance sheets and with high levels of recurring or repeating revenue. Whilst unlikely to be immune, we believe that earnings of the companies we invest in, in the face of a recession should be more resilient than the broader market. Continuing high commodity prices however would be a big headwind to returns although prices did, in the main, also come under pressure in June.

Given this backdrop markets struggled. Large companies, represented by the FTSE 100 Index, outperformed smaller market capitalisation companies over the month. The FTSE All Share (-5.98%)¹, FTSE 100 (-5.53%)¹, & FTSE 250 (ex-Investment Companies, -9.62%)¹, while the FTSE Small Cap (ex-Investment companies, -7.98%)¹.

Portfolio positioning and performance

In corporate news, sentiment towards SSE fell as it was caught up in the potential for a windfall tax despite it enabling delivery of over 25% of the UK's offshore wind target. Moonpig announced the acquisition of Buyagift which facilitates them to be able to increase their gift sales in experiential areas such as theatre tickets. There were

¹ Source: Bloomberg, local currencies as at 30/06/2022.

also solid earnings updates from Safestore, Ashtead, DiscoverIE, WH Smith and RWS. GB Group also retained expectations but reminded the market they were up against a tough earnings comparable and in a nervous market this was not taken well.

From an Environmental, Social & Governance (ESG) point of view it is pleasing that Moonpig confirmed that their card sourcing is now 100% sustainable and as part of their carbon offset they planted 66 hectares of trees. Diversity is also improving within technical and leadership roles thanks to the use of networks such as SheCanCode and Women in Tech.

Safestore have received an Investors in People Platinum accreditation which is the highest accolade in the Investors in People scale. This award places Safestore in the top 2% of accredited organisations in the UK.

Within our People theme, the holding in Restaurant Group was sold in June on fears around consumer discretionary spending. Melrose was also sold following a strong recent run as some of the end market drivers are not felt to be as compelling as other industrial companies held within the portfolio. The strategy increased its holding in Ashtead, Ceres, Kainos and GB Group as we sought to take advantage of share price weakness.

During the month ESG analysis was undertaken with BP & Dechra. The portfolio consists of 77% in companies that are deemed as ESG leaders and 23% that are 'in transition' and cash.

Outlook

Market direction continues to be shaped by inflation, interest rates and commodity prices. We continue to meet with company management teams and are reassured by generally strong results and cautiously optimistic guidance. Pockets of inflationary pressures remain and will need to be managed by companies; however anecdotal evidence suggests that wage inflation in particular is easing despite pockets of trade union activism.

Central banks are continuing their fight against supply side induced inflation despite declining economic data. Striking the right balance between controlling inflation and not slowing the economy as it recovers is a tricky balancing act.

At times of heightened risk and uncertainty, it is easy to focus exclusively on the macro and geopolitical news flow and lose focus on the fundamental drivers of profitability and cashflow at the corporate level. Our approach remains centred on owning good quality businesses that can reinvest and compound their returns over time. We continue to believe that understanding longer term structural trends and identifying responsible, reliable and ultimately sustainable companies, in a targeted, focused and active approach, remains the key to longer-term success.

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