UK Sustainable Equity strategy

Many companies reported strong updates over the month

- Precautionary measures reintroduced to limit the spread of new strain of Covid
- SSE increased their renewable capacity by constructing more offshore wind than peers
- Over the next three years, Kainos will support 60 young people with bursaries

Nigel Yates
Portfolio Manager, UK Sustainable Strategy

What's happening?

Macro events dominated market movements during November. The month started with the market surprised by the Bank of England's decision not to increase interest rates in the face of a solid economic recovery and sharply rising inflation. Sterling weakened over the course of the month. However, despite solid GDP figures for Q3, by the end of the month expectations of a rate hike before the end of the year receded as concerns grew about a new strain of Covid (Omicron) being identified in Southern Africa. While tests are being carried out to establish the efficacy of existing vaccines to the variant and the deadliness of the virus, the government has moved quickly to reintroduce precautionary measures around limiting its spread. While further lockdowns are not being widely anticipated, markets reacted negatively to the news.

Large caps again outperformed their mid and small cap peers during what was a turbulent and weak month for equity returns with the FTSE All Share (-2.2%)[1]. The FTSE 100 (-2.2%)[1] gave back October's gains but outperformed the FTSE 250 (ex-Investment Companies, -2.4%)[1], while the FTSE Small Cap (ex-Investment companies, -4.9%)[1] had a particularly weak time. Year-to-date, the FTSE All Share index has gained 13.0%[1] on a total return basis.

Portfolio positioning and performance

The strategy underperformed the FTSE All Share index in November, driven principally by stock selection within the financials and technology sectors. Prudential plc, Just Group and Hargreaves Lansdown were weak despite not reporting in the period. On the software side, shares in Aveva slid on an inline trading statement as investors worried that the company faces an uphill battle to hit their numbers in the second half of the year. GB Group was also notably weak as the company performed a heavily discounted equity raise to buy Los Angeles based Actuant. The acquisition bolsters their position in Fraud and Identity software. On a positive note, there were many strong updates during the month with Safestore, Rentokil, Kin & Carta, Intermediate Capital, Oxford Nanopore, Experian and Pets at Home all updating well.

[1] Source: Bloomberg

Positions in Kainos, Pets at Home and Grainger were added to following disappointing share price reactions to strong results. The strategy also increased its holdings in Moonpig, Auction Technology Group, XP Power, Gamma Communications and Accesso Technology group, as high quality growth companies continue to lag in the current market. Profits were taken in Astrazeneca following a disappointing Q3 update after a strong share price run, and in Croda which has been an excellent performer.

From an Environmental, Social & Governance (ESG) point of view, it was pleasing to see the increased investment SSE are making in renewable energy. They are constructing more offshore wind capacity than anyone else in the world right now, investing the equivalent of £7m each day in net zero infrastructure. Genuit also aligned its carbon reduction targets with the most ambitious aim of the Paris Climate agreement and have signed up to Science Based Targets with interim milestones. Kin & Carta revealed in their results that they created the software behind the NHS Covid testing centres and Kainos announced that they were again one of the top 100 best companies to work for in the UK. They also stated that 484 people had participated in their virtual work experience programme, 231 people attended their week long virtual ‘codecamps’ and over the next 3 years they will support 60 young people with bursaries who are traditionally under represented at University.

During the month following ESG analysis; XP Power was deemed as ‘in transition’. The portfolio consists of 66% in companies that are deemed as sustainable leaders and 34% that are ‘in transition’ and cash.

Outlook

The main driver of equity markets is still the action in the world’s bond markets given the current heightened level of global inflation. The markets are reacting to every Central Bank headline and economic datapoint trying to ascertain whether ‘transitory’ is still the operative word. In the short term, inflation is likely to remain elevated and could even increase from here. Central banks look set to increase interest rates but the pace and size of the increases are uncertain. The latest Omicron Covid variant has added further complexity with governments quickly responding to its threat by imposing more restrictions. Given this uncertainty, it is worth highlighting that 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.

No assurance can be given that the UK Sustainable Equity Strategy will be successful. Investors can lose some or all of their capital invested. The UK Sustainable Equity strategy is subject to risks including; Equity; Smaller companies risk; Liquidity risk; Investments in small and/or micro-capitalisation universe; Investments in specific countries or geographical zones.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Before making an investment, investors should read the relevant Prospectus and the Key Investor Information Document / scheme documents, which provide full product details including investment charges and risks. The information contained herein is not a substitute for those documents or for professional external advice.
The products or strategies discussed in this document may not be registered nor available in your jurisdiction. Please check the countries of registration with the asset manager, or on the web site https://www.axa-im.com/en/registration-map, where a fund registration map is available. Please note that the management company reserves the right, at any time, to no longer market the product(s) mentioned in this communication in the European Union country by notification to its authority of supervision in accordance with European passport rules. In particular units of the funds may not be offered, sold or delivered to U.S. Persons within the meaning of Regulation S of the U.S. Securities Act of 1933. The tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors. In the event of dissatisfaction with the products or services, you have the right to make a complaint either with the marketer or directly with the management company (more information on our complaints policy is available in English https://www.axa-im.com/important-information/comments-and-complaints). You also have the right to take legal or extra-judicial action at any time if you reside in one of the countries of the European Union. The European online dispute resolution platform allows you to enter a complaint form (https://ec.europa.eu/consumers/odr/main/index.cfm?event=main.home.chooseLanguage) and informs you, depending on your jurisdiction, about your means of redress (https://ec.europa.eu/consumers/odr/main/?event=main.adr.show2).

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate, London EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.