Unit Trust Commentaries

October 2021

This document is intended for Investors and Investment Professionals

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Active Equity

Active Income Trust

Asia Pacific ex Japan equities were flat in October, returning 0.0% in GBP terms, whilst the fund returned -0.7%.

The beginning of the month saw the market rally on the back of positive earnings guidance and an ongoing decline in the number of new Covid-19 cases in many countries in the region. However, these gains were offset by weakness towards the end of the month with ongoing concerns over rising energy prices and higher inflation weighing on investor sentiment.

By country, India was one of the weakest performing markets in the region following very strong returns in recent months. This made a positive contribution to relative performance given our underweight allocation to India. The fund further benefitted from its overweight allocation to Australia, with this market outperforming the wider index. These benefits were partially offset by our underweight allocation to China based on the weak corporate governance we find there. Chinese property stocks rallied after Evergrande made an interest payment on its debt during the month, allaying fears over a potential default and spill over into the wider market.

Sector allocation was negative, driven by our overweight position in Industrials and Telecoms, with both sectors underperforming in the month.

At stock level, the strongest contributions to relative fund performance came from our holdings in Orica, MGM China and not owning Samsung Electronics. The largest negative contributions came from our holdings in Indus Towers, Star Entertainment and not owning Alibaba.

There were no notable portfolio changes in the period.

European Equity Income

The European equity market kicked on during October, seemingly happy to climb the wall of worry and test all-time highs, with the FTSE World Europe ex UK index returning 3.0% during the month. The monetary policy backdrop has however become less supportive for risk assets, with growing realisation from central banks that perhaps not all inflationary pressures in play will be that transitory, while supply chain headwinds show little sign of abating any time soon. For corporate earnings, while it may not feel it on the ground, it’s been a decent quarter with momentum turning more positive. Despite the threat of weaker top line growth and margins coming under pressure from rising raw materials and labour costs, the season has been a case of “so far, so good”. Arguably, anecdotal evidence suggests the outlook for a more sustained capex recovery environment has improved despite the growing appearance of terms like ‘stagflation’ in market debates. With that, we stick to the notion that risk-reward for stocks is still positive.

The L&G European Equity Income fund underperformed its benchmark in October, reflecting relative weakness in value names across the region. Sector allocation was negative due to our overweight in Telecoms. Stock selection was also negative, driven by weakness in our Energy and Financials exposure. At the stock level, the top positive contributions came from Novo Nordisk, UBS and Mowi. Negative contributions came from Flow Traders, PGS and Wacker Chemie.

There were no notable portfolio changes in the period.

European Growth

Equity markets kicked on during October, seemingly happy to climb the wall of worry and test all-time highs. The monetary policy backdrop has however become less supportive for risk assets, with growing realisation from central banks that perhaps not all inflationary pressures in play will be that transitory, while supply chain headwinds show little sign of abating any time soon. For corporate earnings, while it may not feel it on the ground, it's been a decent quarter with momentum turning more positive.

Turning to equity performance, market leadership changed through October with some big differences at the sector level by region. In Europe we saw sector rotation back to some defensive and quality plays. Tech, Utilities and Consumer Discretionary led, while Industrials and Telecoms underperformed.

The European Growth Fund underperformed its benchmark by ~380bps in the period. Stock selection and sector allocation both made a negative contribution to return. The underweight in Financials (Banks) and Utilities detracted 50bps, though the biggest drag was the overweight in Consumer Discretionary. For selection we saw weakness from our Tech and Industrials exposure. Top stock contributors were SOITEC, Moncler, Infineon Technologies and Varta. Leading detractors included Teamviewer, Aluflexpack, Inpost, Bike24, Ubisoft, Friedrich Vorwerk and Fluidra. On trading we introduced a new position in Sika, while Ferrari and Nacon were both sold.

Global Thematic Fund

The Legal & General Global Thematic Unit Trust returned +1.13% in October.

Central banks reinstated they will continue to support economic recovery despite sending signals of monetary policy contraction, the US Senate voted to raise the debt ceiling and companies reported solid Q3 earnings. Overall, these factors lifted equity markets throughout October.

Most ETFs in the Legal & General Global Thematic Unit Trust contributed positively to performance. In particular, the main contributors were Cyber Security (+5.02%), Artificial Intelligence (+5.33%) and Robotics and Automation (+3.28%), whilst Pharma Breakthrough (-1.61%), eCommerce Logistics (-1.40%) and Healthcare Breakthrough (-0.94%) detracted.

Within Cyber Security and Artificial Intelligence, Cloudflare drove returns with an exceptional +70.0% performance in GBP terms over the month. The cloud infrastructure provider has been benefitting from ongoing growth in the two themes, given its innovative capabilities that combine cyber security with machine learning. In October, the company announced better than expected Q3 results, thanks to revenue growth linked to an increase in large customer base. It also achieved profitability, one year earlier than planned.

Battery Value-Chain and Clean Water contributed positively (+1.6% and +1.2%) on the back of the current narrative on sustainability and climate change, as highlighted in the COP26.

Growth Trust

Equity markets kicked on during October, seemingly happy to climb the wall of worry and test all-time highs. The monetary policy backdrop has however become less supportive for risk assets, with growing realisation from central banks that perhaps not all inflationary pressures in play will be that transitory, while supply chain headwinds show little sign of abating any time soon. For corporate earnings, while it may not feel it on the ground, it’s been a decent quarter with momentum turning more positive.

Turning to equity performance, market leadership changed through October with some big differences at the sector level by region. Despite outperforming in September, the UK benchmarks failed to keep pace with gains elsewhere. Banks enjoyed a strong month, while Utilities and Healthcare also outperformed. Conversely, SMID caps found life tougher going, with both Consumer-facing groups and Tech names struggling, and Housebuilders also lagged.

The L&G Growth Trust underperformed its benchmark by 150bps in the period. On sector allocation, the underweight to Financials (Banks), Healthcare and Utilities cost 70bps relative performance. While the overweight to Tech and Consumer Discretionary was also unhelpful given the negative sector relative return. Stock selection was more mixed, with gains in Materials offset by weakness from Telecoms and Retail. Top stock contributors were Ceres Power, Croda, Ocado Group, Ashtead and Tritax Big Box. The largest detractors were Alphawave, Helios Towers, Boohoo Group and Network International. There was no significant new trading activity.

UK Equity Income

The UK equity market kicked on during October, seemingly happy to climb the wall of worry and test all-time highs, with the FTSE All-Share index returning 1.8% during the month. The monetary policy backdrop has however become less supportive for risk assets, with growing realisation from central banks that perhaps not all inflationary pressures in play will be that transitory, while supply chain headwinds show little sign of abating any time soon. For corporate earnings, while it may not feel it on the ground, it’s been a decent quarter with momentum turning more positive. Despite the threat of weaker top line growth and margins coming under pressure from rising raw materials and labour costs, the season has been a case of “so far, so good”. Arguably, anecdotal evidence suggests the outlook for a more sustained capex recovery environment has improved despite the growing appearance of terms like ‘stagflation’ in market debates. With that, we stick to the notion that risk-reward for stocks is still positive.

The L&G UK Equity Income Fund underperformed against its benchmark in October. Sector allocation was negative due to our overweight in Telecoms. Stock selection also made a negative contribution, driven by weakness in our Industrials exposure. By stock, top positive contributions came from our holdings in Standard Chartered, WPP and Tesco. The largest negative contributions to relative returns came from BT, Qinetiq and being underweight HSBC.

In terms of activity, we sold our position in Morrison Supermarkets following the takeover by CD&R.

UK Select Equity

Equity markets kicked on during October, seemingly happy to climb the wall of worry and test all-time highs. The monetary policy backdrop has however become less supportive for risk assets, with growing realisation from central banks that perhaps not all inflationary pressures in play will be that transitory, while supply chain headwinds show little sign of abating any time soon. For corporate earnings, while it may not feel it on the ground, it's been a decent quarter with momentum turning more positive.

Turning to equity performance, market leadership changed through October with some big differences at the sector level by region. Despite outperforming in September, the UK benchmarks failed to keep pace with gains elsewhere. Banks enjoyed a strong month, while Utilities and Healthcare also outperformed. Conversely, SMID caps found life tougher going, with both Consumer-facing groups and Tech names struggling, and Housebuilders also lagged.

The L&G UK Select Equity Fund underperformed its benchmark by ~170bps. Stock selection was disappointing with weakness in Tech and Telecoms. On sector allocation, the underweight to Financials (Banks) and Healthcare cost 50bps. While the overweight to Tech and Consumer Discretionary was also unhelpful given the negative sector relative return. Top stock contributors were Ceres Power, Watches of Switzerland, Croda, Ocado Group and Ashtead. Detractors were Alphawave, Victorian Plumbing, Trustpilot, Helios Towers, Boohoo Group and Network International. On trading activity we introduced new positions in Spirax Sarco, Hill & Smith, Grainger and DS Smith, as we continue to increase the number of positions on the portfolio.

UK Special Situations Trust

The UK equity market kicked on during October, seemingly happy to climb the wall of worry and test all-time highs, with the FTSE All-Share index returning 1.8% during the month. The monetary policy backdrop has however become less supportive for risk assets, with growing realisation from central banks that perhaps not all inflationary pressures in play will be that transitory, while supply chain headwinds show little sign of abating any time soon. For corporate earnings, while it may not feel it on the ground, it's been a decent quarter with momentum turning more positive. Despite the threat of weaker top line growth and margins coming under pressure from rising raw materials and labour costs, the season has been a case of "so far, so good". Arguably, anecdotal evidence suggests the outlook for a more sustained capex recovery environment has improved despite the growing appearance of terms like 'stagflation' in market debates. With that, we stick to the notion that risk-reward for stocks is still positive.

The L&G UK Special Situations Trust underperformed the benchmark in October. Sector allocation was a small negative due to our underweight in Financials. Stock selection also made a negative contribution, driven by our names in Consumer Discretionary. At the individual stock level, top positive contributions came from our holdings in Standard Chartered, Biffa and Intermediate Capital. The largest negative contributions to relative returns came from On the Beach, Gym Group and not owning HSBC.

There were no notable portfolio changes in the period.

Unconstrained

Future World Sustainable Opportunities Fund

The Future World Sustainable Opportunities Fund's performance was flat for October, leaving the strong year-to-date returns unchanged.

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Our core equity holdings therefore made a positive contribution to the overall fund performance. Individual holdings in Microsoft, Moncler and Intuit were particularly strong. The Special Situations energy transition equity holdings also continued to benefit from the re-opening of the global economy, offering a positive contribution with a low correlation to wider equity markets.

Our emerging market debt allocation outperformed its respective index, although made a negative overall contribution given the wider market sell off. The overweight to Indian renewables corporates continues to be beneficial.

On risk management, our equity index hedges were a drag on performance this month. Our use of hedging to limit downside risk has significantly benefited fund performance year-to-date and remains a focus of the strategy.

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