Unit Trust Commentaries

May 2022

This document is intended for Investors and Investment Professionals

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Active Equity

Asia Pacific Equity Income

Asia Pacific ex Japan equities remained weak over the month and lagged emerging markets. Country-wise, India posted negative returns while China returned positive results after some improving signs of covid restrictions but also strong corporate earnings from within the technology sector. From a sector's perspective, Telecoms was the worst performing sector over the month while Technology and Energy sectors led the market higher. Against this backdrop, the benchmark index fell -0.5% in GBP terms.

The Fund rose in value and outperformed its benchmark index during the month. Country allocation was positive for relative returns driven from the underweight exposure to India. Sector allocation in aggregate hurt performance driven from the overweight to Telecoms and the underweight to Technology. Stock selection was helpful across most sectors except for Utilities and Consumer Discretionary. Top stock picks came from the outperforming Energy sector with positions in PetroChina and CNOOC proved beneficials to returns. The largest individual detractors came from positions in DBS Group and China Overseas.

In terms of significant activity, we exited our position in CIMC Vehicles Group.

European Equity Income

European ex UK equities were relative weak but outperformed most developed markets. Sentiment remained downbeat on concerns of macro risks from the continued war between Russia and Ukraine, rising commodity and oil prices and tightening monetary policies. Energy remained a clear beneficiary from rising oil prices while Financials, Telecoms and Utilities also posted positive returns. On the other hand, Consumer Staples, Real Estate and Health Care were in the red. Against this backdrop, the benchmark FTSE World Europe ex UK fell -0.1% in GBP terms.

The Fund rose in value and outperformed its benchmark index during the month. Stock selection was the main driver of outperformance, driven by strength in our Industrials, Basic Materials and Financials exposures. From a sector allocation perspective, the overweight to the outperforming Energy sector was additive to returns. Top stock picks came from within Financials, specifically Societe Generale and ING Group while position in Wacker Chemie also proved beneficial. The largest individual detractors were from not owning positions in Totalenergies and an overweight position in Publicis Groupe.

In terms of significant activity, we exited our position in software company, TietoEVRY OYJ.

Future World Sustainable European Equity Focus

European ex UK equities were relative weak but outperformed most developed markets. Sentiment remained downbeat on concerns of macro risks from the continued war between Russia and Ukraine, rising commodity and oil prices and tightening monetary policies. Energy remained a clear beneficiary from rising oil prices while Financials, Telecoms and Utilities also posted positive returns. On the other hand, Consumer Staples, Real Estate and Health Care were in the red. Against this backdrop, the benchmark FTSE World Europe ex UK fell -0.1% in GBP terms.

The Fund rose in value and outperformed its benchmark index during the month driven largely from stock selection while sector allocation weighed on returns. Sector-wise, the underweight allocation to Financials hurt relative performance but was offset to some degree by the underweight towards traditional defensive sectors such as Health Care and Consumer Staples. Stock selection in aggregate was weak specifically within Energy but positive contributions came from within Basic Materials and Consumer sectors. Top stock picks came from positions in Embracer Group, Alfen Beheer, Shop Apotheke and Umicore.

In terms of significant activity, we sold our positions in Bike24 and Moncler and initiated a position in Siemens AG.

Global Thematic Fund

The Legal & General Global Thematic Fund retreated by -3.48% in May, while global equity markets were broadly flat. The narrative over the month was driven by monetary policy tightening, uncertainty around the European energy supply and lockdowns across China. The US Federal Reserve (Fed) reacted to the US CPI data by hiking rates by 0.50%, and suggested a similar scale for upcoming hikes. Similar CPI releases that surpassed expectations in China and Europe suggested that other central banks could be poised to accelerate tightening, which has been a negative factor for equity markets. The lockdown in China kept having implications on supply chains and demand from Chinese consumers. The first quarter earnings season concluded and was positive overall, although margins for some companies started face challenges thrown by high shipping costs and difficulties in passing on elevated inflation.

Within the Legal & General Global Thematic Fund, The L&G Battery Value-Chain was the main performance contributor, having returned +2.55% over the month. The ETF benefitted from exposure to lithium miners such as Livent, which announced capacity expansion projects and provided higher earnings guidance thanks to higher price assumptions, and Mineral Resources, and auto manufacturers such as BYD, Renault and BMW. BYD rose by +18.34% in GBP terms over the month, despite the equity downturn, rising input costs and Covid restrictions in China, having announced record New Energy Vehicle (NEV) sales volumes and higher market share and profitability.

The L&G Cyber Security UCITS ETF (returned -8.31%) was the main detractor, followed by the L&G Pharma Breakthrough UCITS ETF (-8.52%) and the L&G Artificial Intelligence UCITS ETF (-8.43%). The Cyber Security and the Artificial Intelligence themes were penalised by their exposure to software companies, particularly those with higher valuations, on the back of continued multiple correction. Cloudflare was one of the worst performing stocks within the themes, having returned -35.21% in GBP terms over the month, although in its 2022 Analyst Day held in May the company confirmed the roll out of new services to attract new customers, rising attach rates, improved customer growth and international expansion. The performance of the Pharma Breakthrough theme was affected by some earnings misses.

Growth Trust

UK Equities remained resilient over the month outperforming other regional equity markets and helped by a commodity-heavy index, notwithstanding the squeeze faced by consumers over rising energy bills. Sector-wise, Energy posted double-digit returns while Technology, Utilities and Real Estate lagged the broader market. Against this backdrop the FTSE All-Share Index rose 0.7% in GBP terms.

The Fund underperformed its benchmark index with underperformance driven equally by stock selection and sector allocation. The overweight to Technology detracted from performance as the sector lagged the market while our focus on ESG and subsequent tilt away from Energy sectors also went unrewarded as the sector outperformed. Weak stock picks came from within Energy and Basic Materials while positive contributions came from within Health Care. Top stock picks came from positions in Alphawave and Pets at Home Group and weaker stock picks came from positions in Darktrace, Tritax Big Box REIT, while not owning energy company Shell also featured among the bottom stock detractors to returns.

In terms of significant activity, we exited from online-retailer, Boohoo Group and added Watches of Switzerland to the Fund.

UK Equity Income

UK Equities remained resilient over the month outperforming other regional equity markets and helped by a commodity-heavy index, notwithstanding the squeeze faced by consumers over rising energy bills. Sector-wise, Energy posted double-digit returns while Technology, Utilities and Real Estate lagged the broader market. Against this backdrop the FTSE All-Share Index rose 0.7% in GBP terms.

The Fund rose in value and strongly outperformed its benchmark index during the month. Stock selection and sector positioning were both additive to returns. In terms of sectors, it was driven from the overweight in Telecoms, while stock selection was positive from the underweight exposures to Financials and Consumer Staples. The largest individual stock contributor to returns over the month came from a position in Standard Chartered while not owning Diageo was additive to relative returns. The largest detractor was from an underweight position in Shell whilst positions in Currys and WPP also weighed on relative returns.

There were no significant changes to the Fund over the period.

UK Select Equity

UK Equities remained resilient over the month outperforming other regional equity markets and helped by a commodity-heavy index, notwithstanding the squeeze faced by consumers over rising energy bills. Sector-wise, Energy posted double-digit returns while Technology, Utilities and Real Estate lagged the broader market. Against this backdrop the FTSE All-Share Index rose 0.7% in GBP terms.

The Fund underperformed its benchmark index with underperformance driven equally by stock selection and sector allocation. The overweight to Industrials and Technology detracted from performance as both sectors lagged the market while our focus on ESG and subsequent tilt away from Energy sectors also went unrewarded as the sector outperformed. Weak stock picks came from within Industrials and Financials. Positive contributions came from within Consumer Discretionary, specifically positions in Moonpig and Pets at Home Group featured among the top stock contributors to returns. Not owning energy companies, Shell and BP featured among the largest individual stock detractors to returns

In terms of significant activity, we exited from online-retailer, Boohoo Group.

Unconstrained

Future World Sustainable Opportunities Fund

The Future World Sustainable Opportunities Fund posted a negative return for May.

Equity markets fared better in May than April, though sentiment continued to be downbeat weighed by the macro risks of the continued war between Russia/ Ukraine and tightening monetary policies.

US equities were weak over the month, the Fed increased rates by 50-basis points and a further two sequential 50-basis points hikes are also now being priced in. Headline inflation and hawkish tones from the Fed leads to fears of a risk to growth. Elsewhere, China continues to grapple with Covid, where Shanghai remained largely in lockdown over the month but did see some re-opening. In Europe, the conflict between Russia and Ukraine continued with no resolution in sight causing oil and commodity prices to continue to rise. UK equities remained resilient, helped by a commodity-heavy index though consumers remained squeezed from rising energy bills.

Given the risk-off environment, our core equity holdings made a negative contribution to the overall fund performance. Elsewhere in equity, our Special Situations energy transition equity holdings made a positive contribution, significantly outperforming the wider market. Since inception, this allocation has offered strong returns with a low correlation to wider equity markets.

Elsewhere in risk assets, our emerging market debt allocation posted a negative return, in line with respective benchmarks.

On risk management, our put spread and VIX future tail hedges have been particularly helpful. Our use of hedging to limit downside risk has greatly benefited long-term fund performance and remains a key focus of the strategy.

Contact us

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