Fund Managers Report 30th June 2018 to 30th September 2018

In our June report we dwelt on the divergence between the US, European, UK, Asian and Emerging markets and this became apparent with the variations in equity market performance over the last quarter.

In the US we saw the market gain 7% in US Dollar terms and sentiment remains strong. This is particularly evident in the strong labour market and wage growth. A recent Wall Street Journal article has highlighted the fact that there is a shortage of workers in low paid sectors and that both wages and working conditions have had to significantly improve to attract and retain workers. Consumer confidence is high and the economic outlook remains strong.

The US government took a big gamble with the tax cuts last year, attempting to kick the economy out of the post 2000 low growth malaise. Whilst the jury is still out on whether this will work in the long term, right now, sentiment in the US remains strong and warning signals (debt, customer saturation in the auto sector) are not enough to challenge this perception right now.

Europe remains mired in low growth and has seen a dip in business and consumer sentiments, despite this over the quarter European markets gained about 1.9%. Nothing has happened to address the core economic issues in any of the major economies and Europe could be a loser as new global trade agreements materialise.

The UK equity markets fell and generated a 0.7% negative return over the period, as the UK market is a truly global and commodity based market. Therefore much of this was to do with sterling. Brexit continues to drive headlines, most of which are of no real value, but as we now enter the Brexit endgame tensions in the UK will remain high. Despite the economic drag created by the uncertainty, the UK economy continues to fare surprisingly well, but far more important than Brexit is the political risk this uncertainty creates.

Emerging markets varied but on the whole performed well, our main investment in this area returned 0.15% in Sterling terms. We note that Ethical funds tended to underperform, the Bloomberg SRI index returned -0.35% over the period. Fixed income was also lower, generating a negative return of 1.21%. We have been able to generate a positive return in most portfolios due to our overseas exposure.

Market Outlook

What we have seen is that markets have paid the price where there is uncertainty. We now expect some of the most pressing issues to resolve in the coming quarter, in particular the Brexit deal, global trade and possibly the oil price and we would expect the markets to react accordingly. Therefore we begin the last quarter with a cautious investment stance with funds available to exploit any opportunities that present themselves.

Portfolio Changes

We used the market weakness during the period to top up on some existing holdings in ASOS, Vodafone, Renewi, Spectris, Siemens, MedicX, Good Energy and Aviva (where your ethics permitted). We also participated in a placing from Ilika as they raised more funds for expansion.

We also added a shorter dated Deutsche Bahn bond back to portfolio. Being a highly rated bond this is a low risk investment intended to improve the return on the portfolio, as we still see some risk in fixed income we selected a shorter dated bond. Earlier in the year we sold the longer dated bond.

Although we normally hold investments on average for 4 years, we sold Svenksa Handelsbanken (regarded as the most ethical in Europe) after just 8 months as the interest rate outlook in Europe deteriorated. We also sold Kier group to lower portfolio risk, we still like the company, but the failure of Carillion has led to unwanted hedge fund attention, so we intend to bide our time with this investment. We sold Pennon Group after its dividend and a rally, as political risk in the UK remains elevated.

We added a new investment in the small US company TPI Composites; they are a global leader in wind turbine blade design and manufacturing with both Siemens Gamesa and Vestas Wind Systems as their clients. They have a global manufacturing footprint which is something we feel is attractive as expansion in the wind turbine market is now focussed in India and other parts of Asia.