For many people 2020 cannot end soon enough, it was certainly not the year many of us anticipated back in January, and although the year has been traumatic on so many different levels, so much has also been learned.

As much of the world was forced to work from home where it could, we learned that the world could still function, and post-virus we know the way people work will be different. Even though we still need the office, it will be used differently and this will have significant ramifications for urban transport and office properties. Retail was already a long way along a well-established trend to being online and the virus has created a number of winners and losers depending on how far companies had adapted their business models. Whilst the pendulum will swing back as lockdown eases, retail, consumer and office have all been irrevocably changed.

As difficult and painful as this year has been, it has been a good year for ethical investors across the spectrum of capital. What also stands out is that the darker green investor (where the focus is more on ethics and impact) has fared much better than the lighter green where the focus is on ESG data and ratings. A number of factors have contributed to this year's strong performance.

The first reason was the fact ethical portfolios had less exposure to many of the sectors that were hit hardest in the crisis, such as airlines or oil and gas. This also meant being less exposed to the more cyclical UK equity market which has very little to do with the UK economy, but a high exposure to global cyclical investments such as mining and finance, which equally do not feature in ethical portfolios.

However, missing many of the hard hit sectors was only part of the story. It was what the portfolios were actually invested in that mattered. Incorporating ESG solely on the basis of risk is already passé for growth investors, the focus for investment is increasingly on companies that had either genuine non-stimulus related growth or that would benefit from the build back better mentality. Something that was further fuelled by a change in US leadership, as environmental considerations are expected to be taken more seriously across the pond. As a result; renewable energy developers, electric vehicle developers and other companies associated with green growth have all performed more in line with the internet and social media technology winners, driving the returns of impact funds.

In many cases valuations have become quite stretched, and we have been disciplined about top slicing these investments and in selecting investments that still make investment sense. At the same time valuations need to be considered in a wider context of both the crisis and the expected recovery, requiring an adjusted valuation lens with a longer-term view.

Whereas 2020 was the year of the pandemic, 2021 will be the year of change. As we move from virus to vaccine, the real world will both adjust and revert to a new normal. Although the environment remains a critically important issue, we also see social issues coming increasingly to the fore.

Corporate behaviour during and after the crisis, such as use of government aid, treatment of customers and staff, remuneration, tax and dividends will all be scrutinised. Already we have seen a number of large UK supermarket chains repay their business rate rebates, the first sign of things to come.

We anticipate a noisy and possibly volatile year ahead. We see interest rates remaining low and feel stimulus will be slowly and carefully withdrawn, and whilst some aspects of the recovery is largely priced into both bonds and equities, like Brexit, its seeking who the longer-term winners and losers will be that matters, and this will exercise both us and the markets.

Away from the financial markets, 2020 has also been a year to remember for King & Shaxson Asset Management as a company. We were awarded the title of Best Ethical Discretionary Fund Manager at the Moneyfacts Awards, after being highly commended the year before. We have also seen triple digit growth numbers in our assets under management, and expect to be one-step closer to £150 million by early 2021.

Disclaimer

Company Information

King & Shaxson Asset Management Limited (Reg. No. 3870667) has its registered office at 1st floor, Cutlers Court, 115 Houndsditch, London, EC3A 7BR. The Company is registered in England and Wales and is part of the PhillipCapital Group.

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