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A year of pandemic investing – what next?

T. Rowe Price's Rob Sharps discusses a year of pandemic investing and highlights what to watch as the recovery continues (page 2)

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Sarasin launches sustainable multi-asset strategy

Sarasin & Partners has enhanced its thematic fund range with the launch of the Sarasin Tomorrow's World Multi-Asset Fund.

The fund invests in purposeful companies supporting positive social and economic development, which can assist in redrawing the status quo and help create a more sustainable world for future generations. It aims to provide long-term capital growth through a diversified portfolio of assets – including 30-50 global equities, sterling bonds, and alternatives.

Sarasin has a long track record in constructing balanced multi-asset portfolios able to meet client objectives, while prioritising sustainable economic growth. This is evidenced by the outperformance of the GlobalSar Strategic, GlobalSar Dynamic and Multi Asset Target Return funds over three and five years. The new portfolio is run by Henning Meyer and Megan Brennan.

Meyer says: "The current crisis offers a timely opportunity to reinvent the ways in which businesses operate and people function, while building on the positive aspects of recent human development – such as advances in healthcare and improving standards of living.

"Our job is to identify the companies at the forefront of this movement. These will be tomorrow's winners."

A year of pandemic investing

Rob Sharps
T. Rowe Price

Just over a year ago, in the days after we shifted to remote working, I wrote a note to our investment teams across the globe. I urged them to focus on two things as they grappled with extreme conditions – keep a long-term orientation and remain grounded in the fundamentals.

The collapse in markets in early 2020 quickly reflected the near-term damage the pandemic would ultimately inflict. However, the crash also created tremendous opportunities, as price levels became disconnected from longer-term prospects.

"Many of our portfolios were able to take advantage by repositioning and adding risk"

Many of our portfolios were able to take advantage by repositioning and adding risk. Importantly, we maintained a keen focus on liquidity and balance sheet strength – staying rooted in company fundamentals and focused on the long term.

The pandemic, combined with low rates, also accelerated disruptive transformation. Nearly everything about how we work, socialise, learn and shop has been rethought. We have been watching this trend for some time and were largely positioned accordingly.

Yet, there have been developments that have been more challenging to anticipate, including the magnitude and the length of the pandemic. On the other hand, I also underestimated how rapidly the forceful policy response would fuel the market's rebound. Central banks learned from the global financial crisis.

The market's recovery has been, in turn, swift and dramatic. Valuations are expensive under all but the most optimistic scenarios. Current conditions can persist for a while, but sustained gains will be harder to identify.

So where do we go from here? First, it will be an uneven road to recovery with periods of volatility as we get back to a new normal – especially as much of the recovery has been priced into markets. Second, politics and the Biden administration's emerging priorities will remain in the spotlight.

Third, investors will need to be creative as they search for yield in this low-rate environment. Fourth, disruption will continue, which in turn should create style dispersions, like we have seen recently with stronger returns in small cap and value.

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Earth Day 2021: US rejoins climate fight

Jonathan Bailey
Neuberger Berman

Various developments point to increased momentum on climate action.

The election of Joe Biden laid the groundwork for the US to re-enter the Paris Agreement, creating potential for more unity in addressing long-term climate challenges, while many countries are anticipating more emphasis on green technology as they recover from the current pandemic.

Where companies are moving to reduce their carbon footprint, we have encouraged them to do so more aggressively, and to also adopt science-based targets tied to the Paris Agreement's goals.

Increasingly, we are asking companies not only to commit to transitioning their business model to net zero by 2050, but also to lay out interim targets that will demonstrate how they are going to get there.

"The election of Biden created potential for more unity in addressing climate challenges"

Esmé van Herwijnen
EdenTree

One thing we have learnt from the pandemic is we are ill-prepared to deal with global systemic shocks. Climate change will affect communities, society and the economy in a similar way.

We hope this has raised alarm bells and encourages more immediate action to tackle climate change collaboratively. Net zero targets are welcome as they send a strong signal, and we are seeing many companies making such commitments. However, this is not enough.

The technology for carbon capture and storage is not yet there at scale, so immediate action is needed to reduce emissions. What we want to see is an increase in the number of companies that are setting science-based targets, as we know this will incrementally lead to portfolio decarbonisation over time.

"We want to see an increase in the number of companies setting science-based targets"

Olly Hughes
Gresham House

As much as 17bn tonnes of CO2 must be removed from the air by 2050 if global warming is to be kept below the 2°C target.

With 45% of the carbon stored on land tied up in the world's forests, forestry has a huge role to play in mitigating climate change through the production of carbon credits.

Trees take CO2 from the air and release oxygen, soaking up and storing carbon. In certain jurisdictions, forest owners can earn a carbon credit for each tonne of carbon dioxide emissions absorbed by their forests each year.

Therefore, forestry is an important source of carbon credits for the growing number of companies that need to purchase them, and forestry investors have the opportunity to benefit from the rising demand and prices of carbon credits.

"Forestry investors can benefit from the rising demand and prices of carbon credits"

Earth Day 2021: US rejoins climate fight

Whitney Voûte
US Solar Fund

The US is one of the world's most established and attractive investment markets for solar power production, with supportive regulatory and policy frameworks, excellent conditions for solar in much of the country, and a deep market for long-term power purchase agreements.

These provide power price certainty to investment-grade corporate offtakers and reliable cashflows to solar investors.

With President Biden making bold fiscal policy commitments to back his climate change pledges, the US has established a clear path to carbon-free electricity generation within 14 years. These are welcome plans, which will further support the buoyant solar sector. However, the short timeframe means even more capital is needed to accelerate the roll-out of utility-scale solar power and other renewables.

"The US has established a clear path to carbon-free electricity generation"

Taimur Hyat
PGIM

The Biden administration's recommitment to the Paris Agreement and ambitious climate agenda should usher the US back into the global effort to combat the climate crisis.

But government and regulatory action, while essential, will not be enough. If we are to mitigate the most devastating effects of climate change, it is vital the private sector plays its part.

The most attractive climate-combating opportunities are in the overlooked corners of the market. Wind and solar projects in EMs such as Chile and Uruguay, with ageing hydroelectric networks and declining river flows, are ripe for investors willing to look beyond saturated markets. Resetting the climate agenda could unleash a multitude of untapped opportunities for investors.

"The most attractive opportunities are in the overlooked corners of the market"

Hilde Jenssen
Nordea

Global plastic production has exploded from about 1.5 million metric tonnes in 1950 to 368 million in 2019.

Plastic pollution is a global problem and affects the entire value chain, from manufacturing to waste management. An effective solution requires addressing the issue on multiple fronts – including reducing, recycling, regulating and reimagining plastic.

Many investors are demanding companies improve recycling practices and disclose multi-year waste reduction goals. There is also a need to understand how a company's earnings potential is affected and how waste reduction is tied to key personnel KPIs. There are two ways investors can help reduce plastic pollution – invest in companies with clear recycling targets and invest in companies providing alternatives.

"Plastic pollution is a global problem and affects the entire value chain"

Evenlode unveils new global equity strategy

Evenlode Investment is bolstering its global equity proposition with the launch of the TB Evenlode Global Equity Fund for UK investors, and the Irish-domiciled mirror Evenlode Global Opportunities Fund for the European market.

While Evenlode has seeded the strategy since July 2020, both funds will be available from 4 May. The strategy is managed by Chris Elliott – who runs the TB Evenlode Global Income Fund alongside Ben Peters – and James Knoedler, who joined Evenlode in April 2020 in preparation for the fund's launch.

The strategy employs the same process and philosophy as Global Income, but does not have to maintain a level of dividend payments. As with all Evenlode strategies, engagement-led stewardship is integral and the team will integrate ESG factors.

Elliott comments: "The new strategy will maintain the team's investment process of seeking companies with sustainable asset-light business models, with an emphasis on those delivering high returns on capital and high cashflow conversion over the long term.

"The funds should appeal to UK and European advisers and wealth managers, but also institutional clients seeking a well-defined global equity strategy with a repeatable process that will not succumb to style drift."

Money truly does grow on trees

Michael Ackerman
EcoForests

The world's wealthiest individuals are estimated to collectively transfer more than $15trn to their families by 2030.

This seismic intergenerational wealth transfer will have a major impact on asset allocation, as a younger and more sustainability conscious generation takes over.

Patriarchs have traditionally been driven by profits, but family offices are now increasingly being led by a different type of thinker – the millennial. Guided by different goals, this generation feels far more responsible for the future of the planet.

Embracing sustainability is also crucial for image. While philanthropy has always been integral to family office operations, high net worth families now have the chance to depart from the carbon-intensive sources of their accumulated wealth and reposition themselves as leaders of the green transition.

This is driving significant flows into one of the most direct forms of impact investment – forestry. When compared to popular renewables, such as solar panels, forestry is less carbon intensive and requires less maintenance.

Trees also benefit from the unique ability to keep growing regardless of market conditions, and aside from being an effective portfolio diversifier with a built-in inflation hedge, forestry offers the highest risk-adjusted returns over 30 years of any asset class – thereby ensuring the next generation is well looked after.

For high-net worth individuals, forestry assets offer the additional allure of being customisable. Forests can be designed to align with an investor's budget, return expectations and time horizon. While the time horizon for forestry is longer than for typical equity and bond portfolios, this does not deter family offices focused on intergenerational wealth preservation.

"Family offices are being led by a different type of thinker – the millennial"

Baronsmead VCTs break £400m milestone

The Baronsmead Venture Capital Trusts (VCTs), managed by Gresham House, have successfully raised £65m this year.

Applications for the fundraising round closed early and were oversubscribed, following strong investor demand.

The Gresham House Ventures team specialises in scaling software and technology-driven businesses in the healthcare, consumer and services sectors. This fundraise ensures the Baronsmead VCTs are well capitalised to continue supporting high-growth, entrepreneurial businesses – which will be a key driver of the economic recovery.

Bevan Duncan, fund manager of the Baronsmead VCTs, says: "Our fundraising is a significant milestone for the Baronsmead VCTs and brings the total AUM to a record £433m.

"We are ready to put the new money raised to work straight away, investing in publicly listed and privately owned businesses operating in sectors where we have deep expertise and in parts of the economy set to benefit from long-term structural growth drivers.

"For us, this means focusing on niche software and digitally driven companies, where our experience and network can help add value and catalyse growth."

Jeremy Anagnos
Nordea

The infrastructure boom

Equity markets embraced companies embodying the 'new economy' during the pandemic year of 2020 – businesses such as Peloton, Netflix and Zoom. Far less excitement was triggered by the 'essential economy' – such as water, gas and electric utilities.

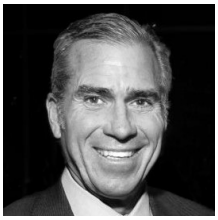
However, it is important not to forget infrastructure companies form the backbone of every economy. Indeed, government policies are accelerating investments in infrastructure – in particular, the upgrading of ageing infrastructure assets and the clean energy transition.

A recent example is the big shift occurring in the US under Joe Biden. However, this is not just a US story – with additional strong commitments in Europe, China and Japan. To meet the 2050 net-zero carbon goal, forecasts suggest $740bn of global capex is required annually – up from prior estimates of $400bn.

Existing infrastructure assets already require ongoing investment – to enhance safety, reliability and efficiency. This consistent organic growth is reinforced by the recent initiatives targeting infrastructure upgrades.

For example, the clean energy transition should invigorate ageing network assets, as it requires significant investment in the network and grid. Annual investments are forecast to increase by 50% from 2020-2030, which will translate into attractive earnings and dividends.

"$740bn of capex will be required annually"



Daniel Dolan
Dolan McEniry

Three pillars of credit

The pandemic will leave deep economic scars and we are likely to see further market dislocation as the winners and losers become more clearly defined.

Against this backdrop, plotting a safe course through US credit markets demands conviction and discipline. While the pandemic might be a once-in-a-century event, acute volatility periods are nothing new in financial markets. To navigate through these periods of distress, we suggest three time-tested investment pillars.

Pillar 1: Look for a wide margin of safety. The worst outcome in credit investing is a default. Because of this, it is important we first focus on mitigating downside risks by evaluating the creditworthiness of companies. We conduct credit research in-house and do not rely on Wall Street research or credit ratings.

Pillar 2: Do not invest in what you do not understand. With research so central to the investment process, it is critical to invest where you understand the underlying businesses. We are drawn to consumer staples, services, low technology, retail, distribution, and manufacturing, among others.

Pillar 3: Long-term lending outweighs short-term trading. We focus on analysing fundamentals rather than following a herd mentality or chasing trends. Putting away the crystal ball allows us to worry less about the macro and more on sorting through our universe to uncover undervalued corporate bonds.

"The winners and losers will become more clearly defined"

KL Conversations: Emma Wall

Emma Wall
Hargreaves Lansdown

"ESG must be completely integrated into your stock analysis and portfolio construction"

Hargreaves Lansdown's head of investment analysis, Emma Wall, recently joined our new KL Conversations series, sharing insights into the growing significance of ESG and what her team looks for in funds, as well as how best to appeal to millennials.

Firstly, Wall explained the positive risk management elements of ESG.

"If you are thinking about investing – and this is where active managers have a great role to play – it is about avoiding the disasters and making sure you invest in sustainable businesses. That means sustainable revenues, profits and dividends. Those companies are the ones horizon scanning, who are aware of the risks," Wall said.

"Also, the dial constantly moves. If you think about what was good enough 10 years ago, five years ago, even two years ago, that is just not good enough now. The question used to be 'does the firm have a head of ESG?'. Now, ESG considerations must be completely integrated into your stock analysis and portfolio construction.

"As fund analysts, we want to know if a firm is walking the walk, as well as talking the talk. It is easy to look at the mandate and see a fund is not investing in 'sin' stocks, but with ESG factors – which can be more intangible – it is about analysing inputs and discovering how a fund considers them in its process."

Wall joined Hargreaves Lansdown in 2019, after more than a decade working as an award-winning financial journalist for The Telegraph and Morningstar – where she became senior international editor. One of her primary roles at Hargreaves Lansdown is to head up the research team, which selects funds for the group's Wealth Shortlist.

"When we are looking to make additions to the shortlist, we not only look for positive relative performance, but performance that is in line with the fund's mandate. A value fund may not have done that well over the last five years, but that is okay, because it means it is doing what it says on the tin," Wall said.

"We will also always add another global income or emerging market fund if it is differentiated from what we have already – a different approach to portfolio construction, perhaps."

At a time when platforms like Hargreaves Lansdown are reporting increasing growth from millennials, Wall commented on how best to appeal to the investors of tomorrow.

"A lot of it is about education and making sure our services are up to scratch. We are working on tools to help surface ESG ideas to clients, as this is popular with millennials," she added.

"Essentially, it is about making sure we provide them with long-term investment ideas that are suitable for them, and education about the power of diversification. If they have just come on board to buy shares in Tesla because its price has increased by 1000%, they need to be made aware of what else a good investment portfolio should hold."