

Sustainable Growth – monthly bulletin

January 2023

On the face of it, the economic and political backdrop has changed little over the past month – inflation remains elevated, central banks continue to raise interest rates, the conflict in Ukraine rages on, and companies are still contemplating layoffs to bolster margins or shore up balance sheets. All that's different is the number at the end of the date, and yet market sentiment seems to have taken a turn for the better in January, with the MSCI ACWI up nearly 8 per cent in US dollar terms. Performance of our recently rebranded Sustainable Growth strategy was better still, up a healthy 16 per cent, but, of course, this is only a partial recovery following a very difficult 2022.

A good example of the shift in sentiment is that your top performance contributor in January was the Canadian ecommerce company Shopify, which has had no significant news since its strong results in October. Perhaps the most likely explanation for its strong showing this month is that the shares are down three quarters from their 2021 peak, despite good operational performance and continued investment in a host of new initiatives. One innovation is the firm's 'Audiences' tool, which allows retailers to pool their customer data and better target ads. This offers a workaround for those advertisers that have had their effectiveness blunted following Apple's requirement for developers to seek user approval for cross-app data tracking.

More substantive news supported the performance of the electronic bond trading platform, MarketAxess. The company reported results early in the month, which showed growth in revenues and margins, with corresponding gains in market share. This is somewhat unsurprising, as trading platforms typically benefit from the greater volumes that result from volatile markets. However, the development supports our idea of the company's ability to replace old-fashioned over-the-phone trading of fixed-income instruments, creating a more liquid, transparent, and efficient market that can lower debt capital costs for companies and governments.

Will ChatGPT3 disrupt the online education industry? Open AI's chatbot answers this question with the diplomacy of a veteran politician, but it seems markets are not so sure. The unmissable hype surrounding the technology was bad for the shares of Chegg during January. The company provides Q&A banks, coding workshops and language skills through its online services, complementing the class-based work of high school and college students. While artificial intelligence has gained prominence recently, we have long been aware of its power, with holdings such as Alphabet quietly working on similar tools behind closed doors. We remain enthused that Chegg has the potential to transform education, both within academia as well as through vocational upskilling, and is guided by its core mission to "help students save time and money and get smarter to improve the overall return on educational investment".

Atlas Copco has been a much steadier investment in the recent past, but this meant it had less ground to recover in the January rebound, which shows up as the second-largest detractor from relative returns. The company makes industrial equipment that helps its customers reduce their ongoing ownership costs by reducing their energy intensity and increasing their reliability. We believe the company will continue to gain shares in its core markets, and its value to customers will increase as concerns over climate change and energy prices remain high. Its uniquely adaptable culture will enable them to execute its core markets today effectively and move into new markets over our investment horizon.

We recently wrote to our clients explaining our enhanced team structure and noted that some trading would result as the new team members made their mark on the portfolio. For this reason, portfolio turnover remained relatively elevated (by our standards) during January, with two complete sales and one new buy. We have been testing holdings against a higher bar for sustainability, and UK wealth manager St James's Place was one that we felt no longer made the grade. We took a new holding in Advance Drainage Systems, the leading US manufacturer of plastic pipes for waste and stormwater.

Performance

Annual past performance to 31 December each year (net %)

	2019	2020	2021	2022	2023
Global Stewardship Composite	-9.3	29.1	75.6	0.4	-42.3
MSCI ACWI	-8.9	27.3	16.8	19.0	-18.0

Annualised returns to 31 December 2022 (net %)

	1 Year	3 Years	5 Years	Since Inception*
Sustainable Growth Composite	-42.3	0.6	3.5	8.8
MSCI ACWI	-18.0	4.5	5.8	8.7

Annualised returns to 31 January 2023 (net %)

	Composite Net (%)	Benchmark (%)	Relative (%)
January 2023	13.7	7.2	6.5
3 Months	18.5	11.1	7.4
One Year	-23.8	-7.5	-16.3
Three Years (p.a.)	4.3	7.3	-3.0
Five Years (p.a.)	4.4	6.1	-1.7
Since Inception*	10.7	9.6	1.0

Source: StatPro, MSCI

Benchmark: MSCI ACWI Index

Based on the Sustainable Growth composite, in USD

Global Stewardship was renamed Sustainable Growth in 2023. *Inception date: 31/12/2015

Past performance is not a guide to future return

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