

# Sustainable Growth – monthly bulletin

March 2023

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The Sustainable Growth portfolio delivered a positive return in March, marginally ahead of the benchmark. Given the significant disruption in the banking industry which occurred this month, a positive outcome is a fairly remarkable result and can perhaps be chalked up to the market taking an unusually long-term view of the implications. While clearly bad for bank stability and market confidence, the travails of Silicon Valley and Signature Banks could herald the end of the most aggressive period of interest rate rises seen in decades. This would be broadly good for growth equities, especially those with the long duration cashflows we tend to favour.

The portfolio was underweight banks going into the month, which was beneficial. However, stock selection was unhelpful, specifically our position in First Republic Bank. Until recently, First Republic was viewed as a fundamentally sound business, with one of the best credit risk records of the past 20 years and deep customer relationships. However, a deposit base concentrated on the west coast of the US and a degree of interest rate exposure on the balance sheet drew comparisons with Silicon Valley Bank. The fact that many of these deposits emanated from wealthy individuals and exceeded the limit for federal insurance coverage prompted fears of a bank run, and a sharp fall in the share price resulted. These two factors formed a nasty downward spiral. This situation was compounded by the decisions of credit rating agencies to downgrade the bank's status to sub-investment grade. This further eroded the confidence of counterparties and looks likely to have a long-term effect on the cost and availability of funding, depressing margins for the foreseeable future. We took the decision to sell out of the position we have held for Sustainable Growth clients since 2016 and we sold our sole remaining banking stock, SMTH of Japan. Ultimately, banks are confidence machines – even with sound fundamentals, once trust is eroded the business model breaks down.

The fading threat of rate rises was indeed helpful for high-growth stocks, in particular graphics chip firm Nvidia, which has seen its shares nearly double year-to-date. While positive sentiment is welcome, we would argue this move is rooted in an expansion of the company's opportunity set. Open AI's Chat GPT has opened eyes to the power of generative machine learning and many imaginative use cases are beginning to emerge, for example allowing non-technical users to write coherent computer code. Nvidia's chips are well positioned to power these innovations. However, the prognosis is not so good for digital education company Chegg, which could see its online tuition services disrupted as AI moves beyond automation of routine tasks to more creative roles that have traditionally been the preserve of humans. For example, the field of translation, which is directly relevant for Chegg following its purchase of language learning app Busuu, may be threatened. We are carefully considering the implications here.

Elsewhere, electronic bond trading platform MarketAxess was a bright spot within financials, following an update from the company highlighting the ongoing shift to electronic solutions in the US bond market. Management expects penetration levels to rise from the current 40 per cent to more than 80 per cent with the help of new user interfaces and algorithmic trading. This will be a key driver of double-digit revenue growth from here. Ecommerce platform Shopify also saw a double-digit share price return in March as it announced its first price rise in 12 years.

As we seek to improve the portfolio's diversity and resilience continually, we added one new holding in March. Wabtec is a key supplier of highly-engineered components to the rail industry, with a particular strength in US freight, where its locomotives make up around 80 per cent of the active fleet. Under-investment in this hard-to-abate sector has left the industry lagging somewhat, however it appears we are closing in on a climate change-induced turning point. Wabtec should play an essential role in helping to lower emissions over the next 20 years and beyond, as aging diesel fleets are replaced with hybrid, or possibly even hydrogen-powered, alternatives.

## Performance

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

|                              | 2019 | 2020  | 2021  | 2022  | 2023  |
|------------------------------|------|-------|-------|-------|-------|
| Sustainable Growth Composite | 1.7  | -5.0  | 107.1 | -19.0 | -20.8 |
| MSCI ACWI                    | 3.2  | -10.8 | 55.3  | 7.7   | -7.0  |

Annualised returns to 31 March 2023 (net %)

|                              | 1 Year | 3 Years | 5 Years | Since Inception* |
|------------------------------|--------|---------|---------|------------------|
| Sustainable Growth Composite | -20.8  | 9.9     | 5.1     | 10.3             |
| MSCI ACWI                    | -7.0   | 15.9    | 7.5     | 9.4              |

Annualised returns to 31 March 2023 (net %)

|                    | Composite Net (%) | Benchmark (%) | Relative (%) |
|--------------------|-------------------|---------------|--------------|
| March 2023         | 3.2               | 3.2           | 0.0          |
| 3 Months           | 12.7              | 7.4           | 5.3          |
| One Year           | -20.8             | -7.0          | -13.9        |
| Three Years (p.a.) | 9.9               | 15.9          | -6.0         |
| Five Years (p.a.)  | 5.1               | 7.5           | -2.4         |
| Since Inception*   | 10.3              | 9.4           | 0.8          |

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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