TAM ESG GBP PORTFOLIOS
QUARTERLY COMMENTARY: Q3 2020

MARKET REVIEW

Central banks and governments worldwide continued to support the global economy through fiscal and monetary stimulus packages which sustained the climb in global equities in what is usually a quiet quarter for financial markets.

Despite economies reopening, central banks in the UK and US kept interest rates at historic lows in an attempt to contain the economic fallout from COVID. There was a significant shift in inflation policy by the Federal Reserve (US central bank) in August, which moved to an average inflation target instead of the precise 2% level it had targeted in the past. This means the Fed will allow inflation to run at a pace above 2% for a period of time without raising interest rates to offset this.

As economies continued to reopen and hopes for a COVID vaccine rose, investors favoured riskier assets, which led to a fall in demand for government bonds towards the second half of the quarter. The US dollar also continued on its downward trend which helped sustain the demand for commodities such as gold and silver as alternative safe haven assets.

The end of the quarter saw signs of a second wave of the virus emerging in several countries which threatened to bring economies to a halt once more. These concerns over rising infections and renewed lockdown measures, along with the failure of the US government to agree a second bailout package, weighed on investor sentiment, leading to a sell-off in global equities and an end to the quarter which contrasted with the optimistic start.

PERFORMANCE REVIEW

The performance data below relates to the period 1st July to 30th September 2020.

	Portfolio %	Benchmark %	Relative %
Defensive	1.30	(0.41)[1]	1.71
Cautious	1.37	(1.17)[2]	2.54
Balanced	1.89	(1.73)[3]	3.62
Growth	3.19	(2.54)[4]	5.73
Adventurous	3.32	(3.15)[5]	6.47

Source: TAM Asset Management Ltd. Notes on Benchmarks: FTSE All-Share Index + Cash (1 Month Libor) in the following proportions: 1) 15% + 85% 2) 35% + 65% 3) 50% + 50% 4) 70% + 30% 5) 85% + 15%

Global equity was a strong performing asset class for the ESG portfolios, led by our high conviction global impact fund, followed by our thematic environmental fund. Our UK small and mid-cap equity fund continued to recover strongly from the sell-off, as did our US and European equity holdings, which all significantly outperformed the FTSE All Share benchmark.

On the non-equity side, the largest contributors to performance came from our sustainable multi-asset fund and holding of physical gold. Our UK social bond fund delivered impressive returns above the cash benchmark, as did our other corporate bond funds.

PORTFOLIO ACTIVITY

We continued to make reductions to UK small and mid-cap equities in Q3, which included the complete sale of one of our longstanding funds. Further reductions to UK equities were made in order to fund the purchase of a new sustainability and impact focused UK equity fund, run by a team who specialises in quality. We also topped up our US equity position and re-introduced European exposure via a new fund run by a sustainable investment team we are very familiar with, whose investment process is centred on three distinct themes which the team believe will be drivers of a sustainable future; improving efficiency, improving health and quality of life and advancing safety, stability and prosperity for members of the economy.

No changes were made on the non-equity side.

OUTLOOK AND STRATEGY

The final quarter of the year looks to be another turbulent one, as markets come to terms with a resurgence of COVID infections and the upcoming US presidential election in November, which will undoubtedly be another source of volatility.

While central banks continue to prop up markets through ultra-low interest rates, the decision to explicitly aim to let inflation overshoot their target, we believe, leads to upside inflation risks, hence our decision to use inflation-linked bonds as a hedge.

Hope remains for a vaccine breakthrough which could provide a boost to markets in the short term, particularly to the economically sensitive sectors which have lagged in the recovery.

Our overall outlook on equities remains constructive, although we will be entering the final quarter with caution. We believe our portfolios are well-positioned to weather the unsettled markets as we have focused on funds investing in high quality companies with strong market power which are able to pass on price increases and which have strong balance sheets, putting them in a better position to withstand any further pressure. We continue to hold well diversified portfolios across regions and asset classes, with cash on the sidelines to put to work as and when we see opportunities arising.

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