CHETWOOD
INVESTMENT MANAGEMENT

ESG PORTFOLIOS
QUARTERLY REPORT '22 Q2

Quarter insights

- **Rising inflation and hawkish central bank policy has meant the first half of 2022 has been a difficult one for markets, with both equities and bonds suffering.**
- **Developed market central banks have raised interest rates consecutively and aggressively to increase the cost of borrowing to try and slow demand and cool inflationary pressures.**
- **Growth assets, most notably technology, have had a difficult year to date, as rising interest rates devalue their future earnings stream that investors, until now, have been happy to pay over the odds for in a low growth world.**
- **A highlight for the portfolios have been the overweight to Asia, especially China, where lockdown concerns have reduced, supply constraints are easing, and inflation is only 2%.**

Market review

The second quarter of 2022 saw signs of a shift in investor focus, away from worries about inflation and the rising interest rates needed to combat it and toward the weaker outlook for economic growth. We are working our way through a downside adjustment. The risks that built up over recent years are materializing, meaning lower economic growth, higher inflation, higher interest rates and negative returns in the year to date from financial markets. This will not last forever, but it has not been a great quarter.

On a very simple level, monetary policy is moving from its COVID emergency largesse to a strangled setting to break inflation. The transition has been painful for investors in both equity and bond markets, many of which have seen their worst start to a year since the early 1970's. Covid era valuations – boosted by excess liquidity – have been beaten down and higher bond yields are pressuring equity valuations. The MSCI World equity index has already registered its third worst performance since the 1970s – only exceeded by negative performance in 2008 – when the financial system froze – and 1974 – following the oil embargo and the hangover from the Vietnam war.

It was not all bad news for global equity markets in the second quarter of 2022. You could be forgiven for not having spotted that the standout equity markets over the past quarter have been in China. The news coverage, which is sensationalist by definition, has been about COVID lockdowns and a step back from punitive measures on the property and technology market. The MSCI China Index has risen more than 10% over the past month and is currently up an approximate 5% over the past three months. That quarterly performance is roughly 20% better than the MSCI USA Index. China's official annual inflation rate is currently 2.1%, while the West is currently trying to work out how to deal with 10%. The divergence is stark.

COVID winners have become big losers in 2022. Lockdown share prices rose exponentially for those companies catering for the stay-at-home lifestyle. Netflix and Zoom became bywords in entertainment and communication. Amazon and Ocado flourished by bringing necessities to the door. Greater digitalisation increased interest in the cloud and demand for computing power. The future was embraced with both arms.

> The share prices of alternative energy companies and electric vehicle providers rose on a wave of tech fervour. With market momentum behind the winners, valuations become stretched, and have subsequently suffered in a difficult market environment where future earnings streams are devalued by higher interest rates available today.

Many of these revalued growth stocks are in significantly better shape than those damaged during earlier crises. Indeed, there is a strong chance that quality growth has become dislocated in share price terms from corporate fundamentals and prospects. If this is the case, then we could be on the cusp of a significant investment opportunity.

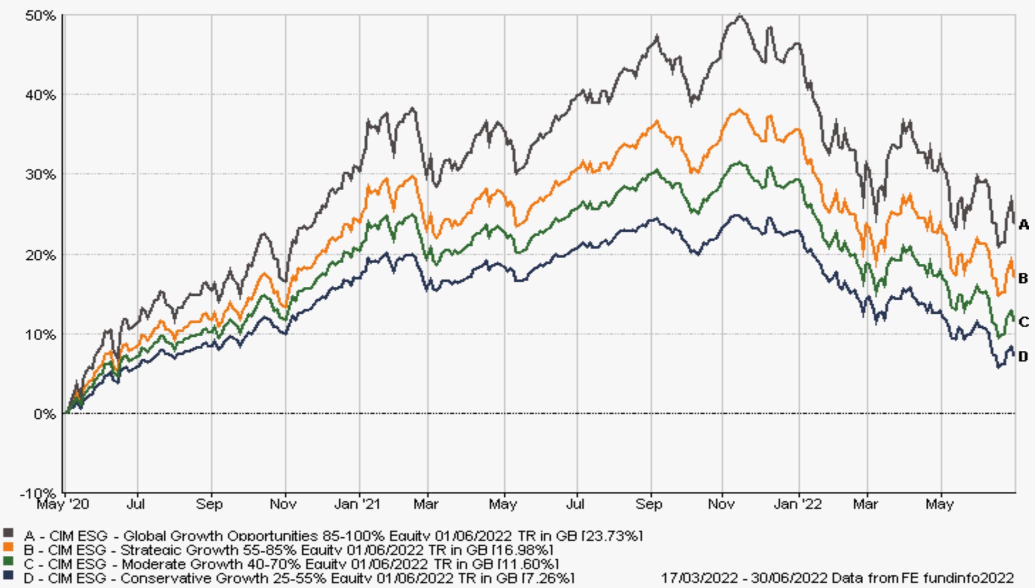
ESG portfolios performance

ESG Portfolios	3 months
CIM ESG Conservative Growth Portfolio	-7.15%
ARC Sterling Cautious PCI	-4.45%
CIM ESG Moderate Growth Portfolio	-7.54%
ARC Sterling Balanced Asset PCI	-6.29%
CIM ESG Strategic Growth Portfolio	-7.77%
ARC Sterling Steady Growth PCI	-7.45%
CIM ESG Global Growth Opportunities Portfolio	-8.93%
ARC Sterling Equity Risk PCI	-8.21%

Index Returns	3 months
FTSE 100	-3.74%
FTSE Actuaries UK Conventional Gilts All Stocks	-7.42%
FTSE Developed Asia Pacific ex Japan	-8.69%
FTSE World ex UK	-9.31%
MSCI Emerging Markets	-4.00%
S&P 500	-9.15%
UK Consumer Price Index	3.16%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph



CIM Moderate sits exactly midway between Conservative and Strategic in the asset allocation and volatility. In light of this, prior to launch of Moderate in January 2022, we have used simulated performance from a portfolio of 50% Conservative and 50% Strategic.

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
Lyxor MSCI China ESG Leaders	11.91% ▲
iShares World Minimum Volatility ESG	-2.00% ▲
Stewart Investors Asia Pacific Sustainability	-2.78% ▲

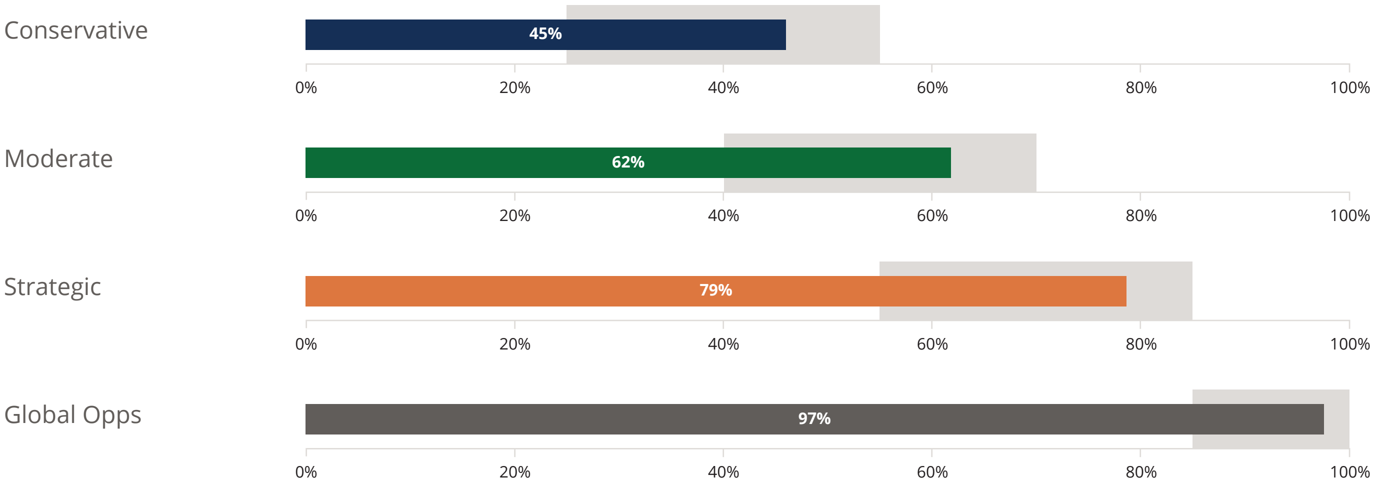
Bottom 3 Model Funds	3 months
Artemis Positive Future	-25.27% ▼
Baillie Gifford Positive Change	-22.27% ▼
Liontrust Sustainable Future Global Growth	-14.62% ▼

Source FE Anaytics to 30th June 2022

Key fund	Commentary
Lyxor MSCI China ESG Leaders UCITS ETF	This fund was added during the quarter and gives broad index exposure to the most important ESG companies in China. We currently favour China as the market has less of an issue with inflation, which enables it to have a more favourable monetary policy. Valuations of Chinese stocks are at attractive levels and the market has strong momentum.
iShares MSCI USA ESG screened UCITS ETF	This fund seeks to track the performance of an index of US companies, but excludes any companies associated with thermal coal, tobacco, controversial weapons and other activities that are not ESG-friendly. We introduced this position during the quarter to add broad US equity exposure as sentiment in markets was extremely negative. Typically when sentiment reaches these extreme levels equities tend to produce positive returns in subsequent periods.
iShares Edge MSCI World Minimum Volatility ESG ETF	The Fund seeks to track the performance of an index composed of ESG selected companies from developed countries that, in the aggregate, have lower volatility characteristics relative to the broader developed equity markets. We have increased exposure to this fund as companies with lower volatility typically perform better during periods of lower growth and higher inflation which we are experiencing.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)	
Schroder Global Sustainable Value Equity	8.7%
Liontrust Sustainable Future Corporate Bond 2	7.1%
UBS MSCI United Kingdom IMI Socially Resp. ETF	5.5%
Threadneedle UK Social Bond	5.5%
Royal London Ethical Bond	5.5%
Lyxor Green Bond Hedged ETF	5.5%
JPM Global Macro Sustainable	5.1%
EdenTree Amity Short Dated Bond	5.0%
EdenTree Amity Sterling Bond	5.0%
Rathbone Ethical Bond	4.5%
Assets in top ten holdings	**57.4%**

Ten largest asset class exposures (%)	
Corporate Bonds	38.3%
North American Equities	15.5%
UK Equities	12.3%
Asia Pacific ex Japan Equities	7.6%
European Equities	6.9%
Other	5.7%
Other Alternatives	5.1%
Cash	4.3%
Japan Equities	2.5%
Government Bonds	1.1%

Cash includes cash held in underlying funds plus GBP held in model

Moderate

Ten largest fund holdings (%)	
Schroder Global Sustainable Value Equity	9.4%
Liontrust Sustainable Future Corporate Bond 2	8.0%
Pimco GIS Global Bond ESG Hedged	6.9%
Lyxor Green Bond Hedged ETF	6.7%
Stewart Investors Asia Pacific Sustainability	5.6%
iShares Edge MSCI World Minimum Volatility ESG UCITS ETF	5.0%
Trojan Ethical Income	4.9%
iShares € Corp Bond ESG UCITS Hedged ETF	4.5%
JPM Global Macro Sustainable	4.2%
Royal London Sustainable Leaders Trust	4.1%
Assets in top ten holdings	**59.3%**

Ten largest asset class exposures (%)	
Corporate Bonds	23.0%
North American Equities	21.9%
UK Equities	16.6%
Asia Pacific ex Japan Equities	10.0%
European Equities	9.4%
Other	7.1%
Other Alternatives	4.2%
Cash	4.0%
Japan Equities	3.1%
Emerging Market Equities	0.7%

Cash includes cash held in underlying funds plus GBP held in model

Asset class review

Strategic

Ten largest fund holdings (%)	
Schroder Global Sustainable Value Equity	13.0%
Trojan Ethical Income	6.5%
Royal London Sustainable Leaders Trust	6.0%
iShares Edge MSCI World Minimum Volatility ESG UCITS ETF	5.0%
Stewart Investors Asia Pacific Sustainability	5.0%
iShares MSCI EM ESG Enhanced ETF	4.5%
Liontrust Sustainable Future Corporate Bond 2	4.0%
UBS MSCI United Kingdom IMI Socially Resp. ETF	4.0%
Lyxor MSCI China ESG Leaders Extra (DR) UCITS ETF	4.0%
iShares MSCI USA ESG Screened UCITS ETF	4.0%
Assets in top ten holdings	**56.0%**

Ten largest asset class exposures (%)	
North American Equities	25.7%
UK Equities	20.7%
Asia Pacific ex Japan Equities	13.8%
Corporate Bonds	12.8%
European Equities	12.2%
Japan Equities	4.2%
Other Alternatives	4.0%
Cash	3.7%
Emerging Market Equities	1.9%
Other	0.9%

Cash includes cash held in underlying funds plus GBP held in model

Global Opps

Ten largest fund holdings (%)	
Schroder Global Sustainable Value Equity	10.9%
UBS MSCI United Kingdom IMI Socially Resp. ETF	9.0%
Stewart Investors Asia Pacific Sustainability	6.0%
Royal London Sustainable Leaders Trust	6.0%
Trojan Ethical Income	6.0%
Liontrust Sustainable Future Global Growth 2	5.5%
Lyxor MSCI China ESG Leaders Extra (DR) UCITS ETF	5.0%
iShares MSCI USA ESG Screened UCITS ETF	5.0%
FP Foresight Sustainable Real Estate Securities	5.0%
JOHCM Regnan Sustainable Water and Waste	4.3%
Assets in top ten holdings	**62.7%**

Ten largest asset class exposures (%)	
North American Equities	28.7%
UK Equities	26.4%
Asia Pacific ex Japan Equities	18.3%
European Equities	15.9%
Japan Equities	4.1%
Cash	3.4%
Emerging Market Equities	2.3%
Other	0.8%
Other Alternatives	0.0%
Commodities	0.0%

Cash includes cash held in underlying funds plus GBP held in model

Asset Class	Portfolio Views
Fixed Interest	We remain underweight this asset class as markets have been concerned about the effect of central bank rate rises on fixed income. Having said this, we are taking advantage of an attractive entry point to gradually increase exposure.
UK Equity	We like this undervalued area of the market as it offers us exposure to favourable themes like energy and financials with a home bias. UK multinationals can also benefit from the recent weakness in GBP.
US Equity	After a strong run, we remain mindful of balancing the attractiveness of a diverse and mature market with a high valuation that could unwind if there is a central bank policy error.
Japan Equity	As the Bank of Japan remains stubbornly against changing its monetary policy, we have a neutral position here, however we continue to like the defensive nature of the Yen.
Asia and Emerging Market Equity	As China starts to remove COVID restrictions, opportunities abound in this area for the shrewd investor and we maintain an overweight in this region with a tilt toward China specifically.
Alternatives	Gold remains a favoured position in this high inflationary environment. We also access commodity exposure indirectly through some of our equity exposures.

Outlook

Experience has taught us that a market recovery often arrives when we least expect it. Patience is a rare commodity in financial markets, but it pays to try and look through the immediate news. In the US, there are signs that demand is slowing and that some parts of the economy are seeing a build-up in inventories and price discounting. The flash June US manufacturing purchasing manager index (PMI) showed a decline in growth with the index dropping from 57.0 to 52.4. Signs of easing price pressures and slower growth are necessary to get the US Federal Reserve (FED) to suggest that enough is enough. Keep in mind that the FED wants to get inflation back to target over the medium term but also to achieve a soft landing. That means it will pivot at some point and cut rates once more, once the data shows the economy is slowing meaningfully.

If the Chair of the US FED, Jerome Powell, gets his soft landing for the economy and can step back from higher interest rates and start easing financial conditions into the latter part of the year, equity returns will rebound.

> If inflation turns lower it will be growth stocks that lead the way. After all, labour market tightness, more aggressive unions, higher wages and supply chain issues make even more of a case for technology and automation.

We know that market cycles come and go. We are in the middle of a significant tightening of monetary policy to try and slow demand and therefore reduce inflationary pressures. Our investment team have plenty of opportunities in front of them, including Asian equities, consumer staples, gold, alternative assets and maybe, just maybe the bond market should the central banks rhetoric start to soften. Whatever the case, we continue to keep an eye out for any opportunities that the market offers, and we see some significant future value being created in areas of the market that we are currently underweight. When the news flow starts to change, we will swiftly take advantage of discounted valuations in these areas.

Thoughts for the quarter ahead...

- **We cannot tell you when or how share prices will bounce back. Nobody can with accuracy. Stock markets are unpredictable and in the short run are affected by all sorts of human behaviours. Panic, excitement and herding, to name a few.**
- **Our investment process deliberately invests through that noise. We know that over three years and longer, market sentiment becomes much less important to investment returns. Company fundamentals and themes dominate over these longer time frames.**
- **We continue to search for those rare businesses with exceptional and underappreciated growth potential, whilst titling the shorter-term part of the portfolios to sensible assets that have some inflation protection.**
- **With discretionary permissions, we can remain nimble and aware of the market environment. Markets will recover from here and we fully intend for our portfolios to participate.**