AJBell Investcentre

Investment Outlook 2023


AJBell
Investcentre
The past five years have been up and down. Growth up, costs down.
The AJ Bell Funds have achieved impressive five-year growth, while also lowering costs whenever possible.
Performance figures: 18 April 2017 to 18 April 2022
Find out more at
investcentre.co.uk
Past performance is not a guide to future performance and some investments need to be held for the long term. The value of investments can go down as well as up, and your client may get back less than originally invested.

Foreword

Michael Summersgill
CEO
AJ Bell

I wouldn't have taken on the role of CEO at an ambitious company like AJ Bell unless I liked a challenge. Which is just as well, because 2023 is unlikely to be plain sailing for anyone in our industry.

Like so much else, the investment landscape ahead will largely be dictated by events such as those playing out in Ukraine. Russia's invasion of the country has brought death, destruction and displacement to its citizens, and caused significant financial hardship for people across Europe – exacerbating price rises that were already uncomfortably high. With the cost of food and fuel massively impacted by the war, inflation is now running even hotter, and central banks have reacted accordingly.

The resultant base rate hikes have seen mortgages soar, worsening a cost-of-living crisis that disproportionately affects the young. Encouraging people to invest in the current conditions will not be easy, but if recent times have shown us anything, it's the crucial role of professional financial planning and advice.

From an AJ Bell perspective, we will continue to invest significantly in enhancing the range of platform and investment solutions available to you and your clients. We may already have a multi-award-winning platform that provides outstanding value and functionality in an easy-to-use package, but we're committed to making sure it continues to evolve.

Throughout the COVID pandemic, we never lost sight of the importance of professional development, and we hugely appreciated your continued support at all of our events. That's why we will continue to deliver seminars, workshops, webinars and conferences, as well as insightful documents like this – the AJ Bell Investcentre Investment Outlook 2023. I hope you find it a useful part of your process as you look to navigate the challenges ahead.

Contents

Central banks are trapped between debt and inflation

Russ Mould
Investment Director
AJ Bell

It is already a year since the last AJ Bell Investival, but the key investment themes, and therefore the opportunities and challenges which face advisers and their clients, remain the same.

- On one hand, inflation is rearing its head, as the massive amounts of fiscal and monetary stimulus applied in 2020 (and beforehand) work their way into the real economy, and not just the financial one.
- On the other, debt continues to pile up. According to the IIF, global debt is approaching 350% of GDP. At more than $300 trillion, the global debt burden is a frightening 80% bigger than it was in 2007, when the Global Financial Crisis struck.

These two issues are inextricably interlinked, something of which the smart money has been aware for three centuries. In The Wealth of Nations, the eighteenth-century political economist Adam Smith wrote, *"History shows that once an enormous debt has been incurred by a nation, there are only two ways to solve it: one is to simply declare bankruptcy and repudiate the debt. The other is to inflate the currency and thus to destroy the wealth of the ordinary citizen."*

The path which central bankers decide to take will have profound implications for wealth, asset prices and therefore advisers' and clients' portfolios. If policy makers hold course, the result could be a recession, a downturn in corporate earnings and cash distributions and an increase in debt defaults and delinquencies. If they decide to prioritise employment and growth, then inflation could come in higher for longer. Those with long memories will remember with little pleasure how the double-digit inflation of the 1970s prompted a crushing de-rating of UK and US equities and meant that any adviser who put cash into the UK equity market in 1966 did not get their money back in real terms until the early 1980s.

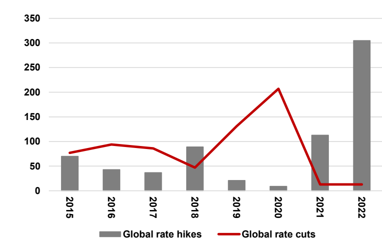
This policy dilemma is what makes the current market narrative concerning whether central banks will pause or pivot on rate rises in 2023 so important.

Limited options

There are other options besides default and inflation, when it comes to tackling an overwhelming debt burden. They include starting a war and getting the economy growing so that the debt can be legitimately paid back, but unfortunately Smith seems to be on the money. Debt could yet complicate central banks' efforts to rein in inflation, by limiting their scope for interest rate increases, and suppress economic growth, to the disappointment of voters, who may yet reach out for 'populist' options which are beyond the pale, so far as the Davos-based cognoscenti are concerned.

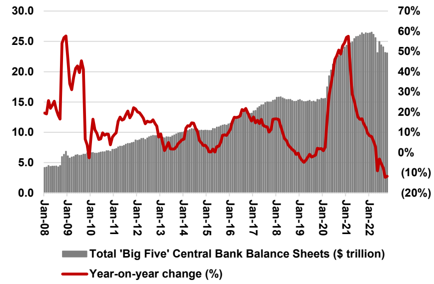
However, even if the issues are the same the mood music is changing, at least so far as financial markets are concerned. Debt, and the cost of servicing it, matter again, because central banks are having to raise interest rates and try to sterilise Quantitative Easing (QE). Misreading this brought about the demise of Liz Truss and Kwasi Kwarteng, as they mistakenly stuck with the view that money would remain free and that there would be no penalty for some cavalier financial planning (even if the goal of economic growth was an admirable and laudable one).

The pace of global interest rate rises continues to accelerate …



Source: www.cbrates.com

… at the same time as central banks start to shrink their balance sheets



Source: Bank of England, Bank of Japan, European Central Bank, Swiss National Bank, US Federal Reserve, FRED - St. Louis Federal Reserve database, Refinitiv data

The colour of money

Central bankers have been terrified of a downturn and a deflationary episode, in the view it would take a terrible toll on the global economy, given how much debt there is in the system. They may have viewed inflation as the lesser of the evils on offer, hence many pronouncements in favour of, and defending, so-called 'helicopter money'.

US Federal Reserve chairs Alan Greenspan, Ben Bernanke, Janet Yellen and now Jay Powell have regularly intervened in the economy, the markets or both to provide monetary stimulus in response to a crisis, only to arguably lay the foundations for the next one with their cheap, ready money.

The Mexican debt crisis and Fed-led bailout of 1995 was followed in quick succession by the 1997-98 Asian and Russian debt crises, the bursting of the dotcom bubble during 2001 to 2002 and the collapse of the US housing bubble in 2007 to 2009.

Then came the Greek debt crisis and – after a lengthy gap when central banks had the chance to tighten policy but chose not to – then came COVID-19.

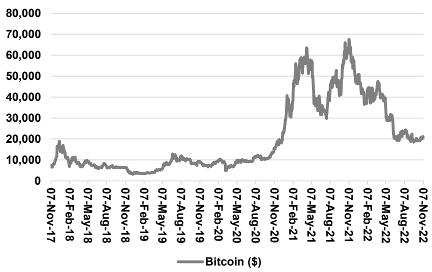
Each time central banks responded with bail-outs, rate cuts and cheap money, or all three.

Each time the effect has been a new speculative session in a new asset class or geography. And each time that has ended in tears.

The bubble that blew during COVID was particularly egregious as it was so wide-ranging, from stocks to bonds to cryptocurrencies and non-fungible tokens. The combination of lockdowns, boredom, social media, access to new trading platforms like Robinhood and lashings of free money from furlough or stimulus cheques or record-low interest rates was only going to lead one way.

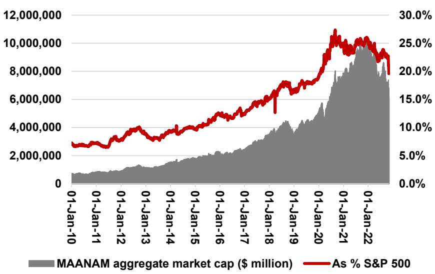
But money is now being re-priced, and this process means that markets are also having to reassess asset valuations. As a result, more speculative assets such as cryptos, initial public offerings, SPACs and tech stocks are taking a pounding, but so are more mainstream equities, as well as government, corporate and high-yield debt. The 60-40 portfolio allocation between equities and bonds is being tested as never before.

Speculative assets like cryptocurrencies are suffering as money is re-priced ...



Source: Refinitiv data

... and long-duration assets like tech stocks are taking a pasting too



Source: Refinitiv data

Pension pounding

The 60-40 portfolio allocation between equities and bonds is being tested as never before and it is possible that financial market dislocation, rather than economic downturn, will prompt central banks to pause and then pivot.

The gilt market rout and Liability-Driven Investing chaos of October forced the Bank of England to act. Who knows what other unexploded bombs are lying out there at a time when debt and derivatives combine to offer the dangerous combination of excess leverage, excess complexity and minimal transparency? The Archegos hedge fund and financier Greensill Capital quickly went broke in plain sight when everything was purportedly going well back in 2021.

It seems unlikely right now, but central banks could prove trigger-fingered on rates and QE if markets stop functioning smoothly. That would not help fight inflation and, as Adam Smith points out, someone will still get hurt, because it erodes the real value of money, and drastic and painful action will be needed to rein it in. Another famous writer's work showed that he got this, too.

Fans of Douglas Adams' book The Hitchhiker's Guide to the Galaxy will remember what happens when the Golgafrinchans crash land on Earth.

A management consultant, shipped off his own planet for being useless, proudly tells Arthur Dent and Ford Prefect that leaves have been adapted as a new working currency and as a result everyone has become immensely rich. The same consultant does then add a caveat – the plentiful availability of leaves means there is an inflation problem, with three forests needed to buy a ship's peanut. In response, forests are to be torched, in an effort to quell the rampant surge in the cost of living.

This just might be where central bankers are now – burning down the forests.

The real deal

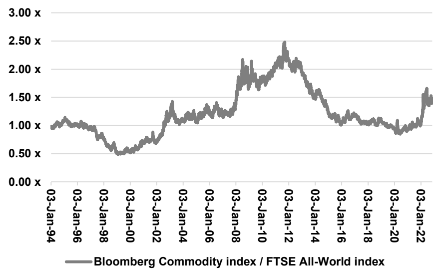
Again, that is not good news for anyone – politician, government official, investor – who is accustomed to, and relying upon, limitless supplies of free money. But it may be a reminder of the value of 'real' stuff, which cannot be conjured out of thin air.

Any whiff of a central bank pause or pivot has, so far in 2022, prompted a reflexive dash into equities. Commodities rarely get a mention, and this might flag an opportunity worthy of further research, at least if sticky inflation and money printing really do start to erode faith in 'paper' assets, and reinforce the importance of stores of value.

Commodities are tricky because they generate no cash, so valuing them relies on assessments of the marginal cost of production and much more. But companies that produce them can generate cash, so paper claims on mines and wells could intrigue some advisers and clients (although Environmental, Social and Governance issues could be a complication for many in this area).

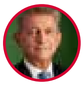
In 2022, commodities have outperformed equities and bonds, with a mid-teens percentage gain on the Bloomberg index against double-digit drops in the FTSE All-World equity and Barclays Global Aggregate bond benchmarks. History is no guarantee for the future by any means, but 'real' assets did well during the limited number of past inflationary episodes that advisers and clients can study. A comparison of the relative strength between the Bloomberg Commodity and FTSE All-World indices implies commodities could have further to go if inflation takes hold and 'real' assets remain in vogue.

Real assets are outperforming paper ones



Source: Refinitiv data

Reasons to be fearful, part 3*



Steve Russell
Investment Director
Ruffer LLP

Could rising interest rates trigger a stampede out of risky assets?

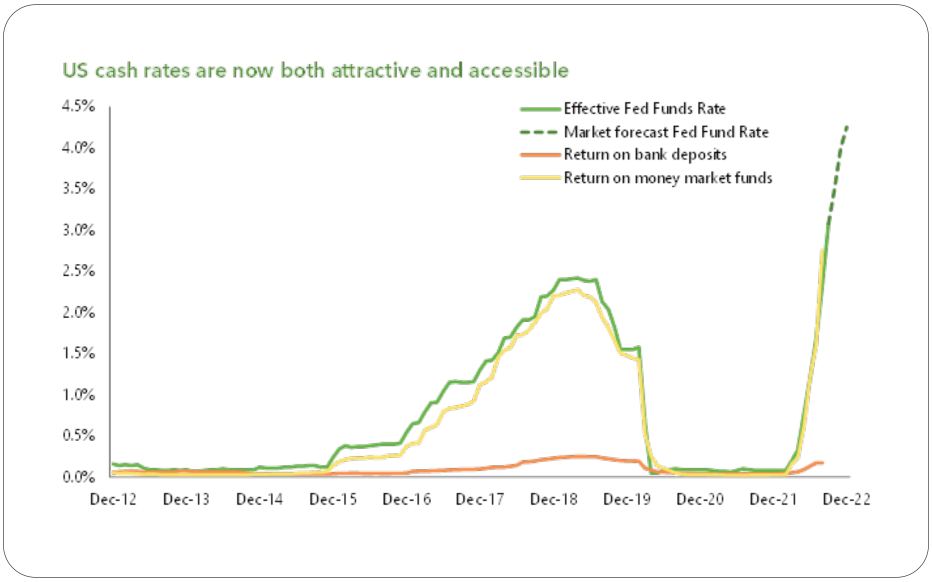
Warning: the following contains explicit language of a bearish nature. Readers of a more nervous disposition may want to look away now…

Even after three consecutive quarters of losses in both equities and bonds investors may not be out of the woods. So far it has been a painful, but orderly, repricing of risky assets. Now, we fear something worse – a liquidation.
In a recent memo, Chief Investment Officer Henry Maxey suggested we could see a sudden rush for the exit by owners of risky assets such as equities and credit. Why might this happen? First and foremost, now there is an alternative. As the chart shows, not only is the official US Federal Funds Rate now in excess of 3%, but ordinary US investors can access similar interest rates by investing in regulated money market funds (MMFs), which currently offer about 2.8%.

Never mind that banks in the US, just as in Britain, are still only offering derisory rates of interest on savings accounts. US investors now have access to safe savings vehicles offering interest rates of almost 3%.

Current market forecasts suggest that US interest rates will exceed 4% by the end of the year, a level MMFs look likely to match. History suggests that when interest rates move above 2%, investors start to take notice. A 4% return on cash may prove irresistible.

At the same time, savers pushed towards more risky investments in equities and credit, as an alternative to near-zero interest rates, are probably now nursing hefty losses. How long before they decide they have had enough?



Source: Bloomberg, Ruffer LLP
*Ian Dury and The Blockheads released 'Reasons to Be Cheerful, Part 3' in July 1979. It got to number 3 in the UK charts. The author was an impressionable 15 year old back then. There were no parts 1 or 2.

Sorry to pile on the gloom, but there are two further reasons why a switch out of equities and credit could be a disorderly rout, a liquidation event for financial markets, rather than the gradual withering of asset prices seen so far this year.

Regulators, mindful of the high risk of a global recession in 2023 and haunted by memories of the 2008 financial crisis, are discouraging commercial banks from expanding their balance sheets. Meanwhile, the same banks face growing demands from companies in the real economy to fund inventories rising simply because of current inflation. These are profitable loans and look certain to receive priority over lending to financial institutions.
The search for yield drove many investors to seek extra income by tying up funds in illiquid investments such as private equity and private debt. If there is a rush to shift money into safer yet higher yielding assets, only a small pool of liquid assets can be sold quickly.

These are the reasons why we moved to a very cautious stance during the summer, with equity holdings as low as or lower than we held just before the GFC in 2008.

We would love to be more optimistic. But current events suggest now is not the time. As Ian Dury sang in 1979, it may be time for 'a bit of grin and bear it' before we can once again look for 'reasons to be cheerful'.

If you would like to a copy of Henry Maxey's memo 'So far, so good', please get in touch with your usual Ruffer contact or email ruffer@ruffer.co.uk

Why UK equities offer attractive buying opportunities

Alex Wright
Portfolio Manager
Fidelity

There is clearly a lot of economic and geopolitical uncertainty globally, as economies are grappling with levels of inflation not seen for several decades. Most indicators point to a slowdown or recession, particularly for the consumer as inflation and rising interest rates take their toll. The unpredictable demand picture combined with continued supply chain pressures are adding to the volatility, and we have started to see that emerge in company earnings.

Whilst this sounds relatively bleak, many of the most affected areas of the market have sold off heavily and some stocks are starting to look interesting. After years of being relatively unloved, the UK market started 2022 looking like good value, and now looks even cheaper. While the near-term outlook is uncertain, these valuation levels and the large divergence in performance between different parts of the market create good opportunities for attractive returns from UK stocks in the next three to five years. In our opinion, the UK market with its higher dividends offers a better prospective return than from many other asset classes, including global equities.

What could surprise markets in 2023?

Many businesses and investors have yet to adjust to the new reality of higher interest rates and bond yields. Whilst some market commentators think this higher cost of finance will fade away, we are more sceptical. The current market environment of higher rates and stickier inflation is more representative of the longer-term pattern seen prior to the Global Financial Crisis.

This has implications for companies that are highly levered and have re-financing needs and will be reflected in a lower availability of capital and significantly higher interest costs. Business models that rely on a lot of debt such as infrastructure owners and developers, utilities and property developers are likely to struggle in this environment. Clearly housebuilders are another area that have been badly impacted by the increased cost of finance for their customers, even if not highly leveraged themselves. From a valuation perspective, history suggests that value tends to outperform in a higher rate environment given higher discount rates and a reversion to mean, which should also favour UK equities.

Positioning for what lies ahead in 2023

A rising rate environment has the potential to be transformational for banks, and indeed, profits for banks such as NatWest could double next year, which is a compelling story in an environment where markets are seeing earnings downgrades and fears of more. The backdrop is also positive for life insurers, whose earnings have proved resilient during the pandemic and should benefit from an acceleration in the pace of pension fund re-risking.

Companies that can hold up well in a recessionary environment should prove good investments. The likes of government outsourcing business Serco or tobacco firm Imperial Brands, two of our largest holdings, should be relatively unaffected by an economic downturn. Conversely, we are wary of highly leveraged companies, and have negligible exposure to real estate and limited exposure to utilities. We have also meaningfully trimmed our UK housing exposure on concerns momentum in the residential market will slow and consumer facing stocks given the cost-of-living crisis.

Over the past decade that we have run this strategy, there have been similar periods of heightened uncertainty such as around Brexit, the election of Donald Trump and the Covid pandemic. It is environments like these that throw up the best investment opportunities as market participants get overly preoccupied by anticipated headwinds. So, we aim to stay agile and will continue to be on the lookout for new opportunities. It is likely there will be forced sellers, especially if the fund flows picture does not improve and as institutional investors look to rebalance their portfolios.

Periods of extreme uncertainty have in retrospect turned out to be great buying opportunities that have allowed us to pick up stock specific stories that had been overlooked in the general panic. However, we are proceeding cautiously and gearing in the portfolio remains low, leaving us with plenty of dry powder to reinvest should opportunities arise. The funds are broadly diversified with over 100 holdings spread across market caps and sectors, with exposure to both cyclical and defensive businesses, which seems prudent given the level of macroeconomic uncertainty.


For investment professionals only
Solutions for a sustainable future
As your clients approach retirement, more may ask how to meet their income needs in the years ahead but also deliver a more sustainable future for generations to come.
Introducing the Fidelity Sustainable Multi Asset range – three risk-controlled funds invested in securities with strong ESG characteristics and credentials. Available for 0.5% OCF.
The value of investments and the income from them can go down as well as up and clients may get back less than they invest. The investment policy of the Sustainable Multi Asset range of funds means they invest mainly in units in collective investment schemes. Changes in currency exchange rates may affect the value of investments in overseas markets. Investments in emerging markets can be more volatile than other more developed markets. The funds also use financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations.
Visit professionals.fidelity.co.uk
Fidelity
INTERNATIONAL

UK equities

Clive Beagles
Senior Fund Manager
J O Hambro Capital Management
UK Equity Income Fund

We are not apologists for the UK economy or indeed for our politicians. We invest in companies, not economies, and the UK continues to have many well-run, conservatively financed and very modestly valued businesses. But as recent years have shown us, politicians and policies can change quickly and meaningfully. In the meantime, many stocks in the UK are on sale at multiples lower than anything we have EVER seen before.
Many P/E ratios below 5x, free cash flow yields in the 15-30% range and numerous stocks trading below asset value, some even below the value of their net current cash. Valuations cannot stay here – there will be multiple takeovers from overseas buyers at substantial premiums if the market doesn't adjust.

What now?

There is clear evidence that tighter financial conditions are slowing activity in several economies. For example, US pending home sales are now running 30% lower than a year ago and rents are beginning to fall, whilst price deflation is clear in areas such as freight rates and used car prices. At the aggregate level, composite PMI indicators across Europe and the USA suggest that a real contraction has indeed begun.

There is a growing recognition that increasing interest rates may be a blunt and ineffective tool for reducing inflationary pressures driven predominantly by supply side constraints. In many regards what's required is more capacity, rather than creating an environment that is likely to deliver less. To be clear, no-one is suggesting that rate increases are about to stop, but that the scale of rises may begin to reduce before flattening out, probably early in 2023. With that in mind, we would expect central banks to progressively de-emphasise their short-term desire to restore inflation to their 2% target and to look at broader impacts on economic activity whilst accepting a higher-for-longer inflation rate, suggesting that the policy 'pivot' may be closer than many market participants assume.

The UK has delayed the publication of its Autumn Statement by a couple of weeks, probably so that the economic projections can not only reflect the current slowdown in economic activity, but also to reflect the substantial reductions in debt cost projections from five weeks ago, both for the government and households, as bond yields and mortgage costs have fallen back from their late September highs. These reductions may, in time, see a modest improvement in business and consumer confidence.

What's next?

New Prime Minister, Rishi Sunak, has a difficult task ahead of him as he looks to reduce the fallout from recent political events. Whilst the media has been distracted, there have been a number of positive developments in economic variables. These have partly been driven by the step-change in credibility that Sunak and Hunt have created. UK bond yields are nearly back to where they were prior to Kwasi Kwarteng's budget (which in due course will be followed by mortgage rates), gas prices have collapsed from their August highs, we remain at almost full employment in the UK and profit levels remain close to record highs – all of these factors slipped under the news radar.

We have rarely felt so strongly that the time to put capital into the UK is now. Some clients redeemed in the summer of 2020, during the depths of the Covid despair, and that felt wrong (as indeed it was), but the timetable for a vaccine solution was unclear then, so it was difficult to dissuade them. This time, given the points above, the path to stronger returns in the UK is much easier to foresee.

Further information

If you would like further information about the Fund, please call our Investor Relations team on +44 (0) 20 7747 8969, email us at info@johcm.co.uk or visit our website at www.johcm.com

Professional investors only.

Technology and the climate challenge

Ben Rogoff
Head of the Polar Capital Technology Team
Polar Capital

There has been a great deal of focus in recent years on the growth of the mobile internet, social media, e-commerce and other important technology trends. We remain excited by these trends and believe they have further to run. However, there is also a sense in which technology has perhaps been too focused on these areas. As an early Facebook employee and co-founder of Cloudera, Jeff Hammerbacher, put it back in 2011: *"The best minds of my generation are thinking about how to make people click ads".*

While the technology sector proved how critical it is during Covid, it is our belief this is just one of many big challenges technology will help address over the coming years.

Climate science tells us it will be necessary to reach net zero by 2050 to limit global warming to $+1.5^{0}$C versus pre-industrial levels. There are three main areas we collectively need to focus on: **policy** includes government net zero commitments and energy transition pathways, emissions legislation, carbon pricing, subsidies for electrification and electric vehicles (EVs) and building regulations; a vast amount of **capital** will be needed to support the transition, anywhere from \$100-\$150 trillion (per The Glasgow Financial Alliance for Net Zero – GFANZ) and \$275 trillion (McKinsey).

Greater adoption of **technology** is the third area. It is crucial to the decarbonisation of the energy sector which is responsible for around three-quarters of greenhouse gas (GHG) emissions. Solar has already seen a phenomenal collapse in unit costs, reflecting its position as a technology versus the extractive fossil fuel processes it is replacing. This change happened much more quickly than expected. A study of nearly 3,000 projections of the annual rate at which solar costs would fall between 2010-20 found an average projection of -2.6% annually, and all studies projected cost declines of less than 6%pa. Solar PV costs actually fell by 15%pa rate during the period.

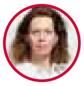
We also see three structural trends which reflect the technology sector's contribution to addressing the climate challenge: the ongoing move to the cloud; the rise of artificial intelligence (AI) and machine learning (ML); and the increasing importance of semiconductors. This is because computing has shifted from on-premise enterprise data centres to hyperscale cloud locations which are much more efficient and environmentally friendly. Recent research from the International Energy Agency (IEA) suggests overall energy demand from data centres has barely increased during the past decade from c1% of global energy, even as traffic has increased 15-fold. Accenture found cloud migrations can reduce carbon emissions by more than 84% and energy usage by 65% compared with conventional infrastructure.

Technology is critical to enabling successful adaptation, especially over a compressed timeframe. The landscape of issues to which AI and ML technologies can be applied is vast, and includes the dynamic forecasting and solving of supply / demand / capacity optimisation problems in the energy network, driving efficiencies in transport networks, optimising buildings and countless other applications. One study found AI alone could save up to 4% of GHG emissions by 2030 and create 18-38 million net new jobs globally.

Finally, we expect to see a large impact from semiconductors' increasing prevalence and efficiency. Semiconductors are uniquely positioned as the underlying technology underpinning increasing energy efficiency, automation, EV adoption and the expansion of renewable energy. A recent Goldman Sachs study indicated semiconductors can enable avoidance of five times more emissions than they emit.

The IEA makes it plain: "All the technologies need to achieve the necessary deep cuts in global emissions by 2030 already exist, and the policies that can drive their deployment are already proven." We look forward to the increasing role technology will play and the investment opportunities this could offer as the fight against climate change intensifies over the coming years and decades.

The case for global small caps



Kirsty Desson
Investment Director
Abrdn

2022 has been a difficult year for equity investors, with some shareholders now questioning the need to invest in the global small cap asset class.

We see the world differently. In our view, the question investors should be asking themselves, at this point in the cycle, is whether they can afford not to allocate to the global small cap universe.

Contrary to what many investors may think, the global small cap and global large cap benchmarks have performed more or less in line, year-to-date[1]. Whilst the global small cap benchmark has fallen by 26.4% (year to 14/10/22), the large cap index has dropped by 26.0%[2]. Looking back at previous downturns, small caps underperformed large caps following the global financial crisis (GFC), but outperformed following the tech bubble[3]. Data shows the US small cap index, the Russell 2000, underperformed the large cap S&P 500 index over the six major downturns between 1980 and 2020 by -5.5% on average.[4]
In other words, which index may hold up better from one period to the next is not set in stone. In any case, the differential between peak-to-trough benchmark performance is sufficiently small that one can conclude both small and large caps perform equally poorly in down periods.

Given moves year-to-date compared to historic peak-to-trough performance, it is possible to argue that much of the retrenchment in share prices has now been realised.

Investors should take note, however, that performance of small and large caps on the way out of a downturn differs significantly. While past performance is not a guide to future returns, one-year and three-year returns for small cap stocks are substantially higher than those of large cap peers[5]. Indeed, post the GFC and the tech bubble, the global small cap benchmark outperformed the MSCI ACWI index by between 40% and 120% over those timeframes[6].

Moreover, this inflection in performance typically starts within the first three months of a recession. Hence investors with no exposure to small cap would be wise to consider the asset class at this stage. [10]

The exponential recovery in the small cap asset class makes sense. By their nature, small caps are more nimble and able to adapt to the economic environment. Its also true that small cap companies tend to be at an earlier stage of their development than larger names and hence have a more attractive growth outlook.

Why might small caps recover more quickly than large caps this time round?

Today, small caps are trading at a discount to large caps on most measures, and at a wider discount to large cap than on average historically (ex Pan Europe).[8] Taking forward price-earnings for example, small cap stocks are trading below large caps across all regions. Moreover, small cap balance sheets are healthy.[7] This places small cap companies in a favourable position to weather a challenging macro backdrop and sustain operations.

For longer term investors, small cap dynamics remain intact. The small cap benchmark comprises of 15% of listed market cap, but represents two thirds of the world's companies! [9] This is a rich and diverse picking ground for investors. Added to this, the universe is less well-covered by analysts than the large cap index, allowing stock pickers with a disciplined and proven investment process to exploit inefficiencies in the asset class. For these reasons, it is not surprising that small caps have outperformed large caps over the long term.

Whilst it is incredibly challenging to accurately time markets, we would argue that now is an opportune moment to allocate to the global small cap asset class.

[1] Source: MSCI AC World Small Cap, MSCI ACWI as at 14/10/22
[2] Source: Bloomberg, returns in USD, YTD to 14 October 2022
[3] Source: Morningstar, Total Return, September 2022
[4] Source: Bloomberg Finance L.P., Factset, and J.P. Morgan Calculations, "The SMid View", October 2022
[5 & 6] Source: Morningstar Direct, Total Return, May 2001 – Mar 2006, May 2007 – Feb 2012
[7] JPM 07/10/22 pg 43
[8] JP Morgan 07/10/22 pg 55
[9] Source: MSCI, based on number of constituents, September 2022
[10] Source: William Blair, Bloomberg, Relative Performance of Russell 2000 vs S&P 500 average relative performance for last 6 recessions starting from 1980 to 2022. BlueMatrix - Document Viewer

Global focus

Mark Rogers
Head of Investments
Montanaro

I have been asked to comment on the world investment outlook. One of the problems of the world is that it produces too much data, which makes choosing a path to follow tricky. To make matters worse this is a time of serious "foot in mouth".

As an investor, you must always look ahead. Looking out from all this gloom, I am sure we are going to be fine. Although the road ahead is still bumpy, now is probably a good time to start thinking about saving for tomorrow.

After all, the democratic world was in pretty good shape before 2020. There were no bubbles that needed bursting, we were innovating like mad, and we were making good social progress. Nothing is ever perfect, and we were having to live with and understand a new kind of monetary policy.

Then the world went into lockdown, and it caught terrible indigestion. Hindsight is a wonderful thing, and perhaps it has shown that during this time of panic we created some terrible knock-on economic decisions. In my opinion we are still trying to get the world back into balance and this is where the blame for most of the world's angst now lies.

Lockdown has affected every factor of production, everywhere. Land, labour, and capital from Afghanistan to Zimbabwe have not escaped. After two years, supply chains, services and goods are still out of balance. But we are slowly getting this sorted. We are nearly there, and my hope is that life on the other side looks half decent.

Let's not get overcome with today's pessimism. The recent capital markets bubble that was created in 2021 from the excessively low interest rates has burst. Inflation has risen far too fast for it to be endemic and will almost certainly decline. Governors of monetary policy have been woken up and they are back on the job. The financial system is not broken, banks are alive, and they will not be brought down by non-performing commercial loans. The single area of over-heating, US housing, has been doused and is now slowing. Some governments may be getting called out for their fiscal stress, but others are not. Companies and households do not hold excessive debt.

Granted, things are not so fine in the non-democratic world. Globalisation has intertwined our destinies and it is unclear how insulated we are from their impeding problems. China's construction sector is a vast part of the world economy, and it is going through a classic bust, possibly too big for the authorities to manage. Russia has been excommunicated, but their real impact on us is energy supply and this can be managed. Already we have full gas storage across Europe and gas prices have plummeted.

The war in Ukraine, whilst miserable for those involved, has so far stayed regional. It has exposed the weakness of the Russian army and the huge gap in military technology with the US. China should take note. This conflict may help restore the balance of power between the democratic and non-democratic worlds, which has been deteriorating ever since the Gulf War.

Yes, currently we are enduring an economic slowdown, but, whilst painful, these end and recoveries follow. Corporate earnings are already falling in the cyclical areas of the economy as rising rates take their toll on demand. Share prices have fallen to reflect these fears. We must not forget that there are large swaths of the corporate world innovating and creating new markets to drive growth.

We will soon get through the global de-stabilisation from lockdown. When we do, we will see that capitalism is flourishing.

Warning: don't put all your eggs in one sustainability metric

Mike Appleby
Investment Manager
Liontrust

It is great that sustainability-related criteria are increasingly being used to make investment decisions and sustainability metrics are being more commonly applied to report to clients. Inevitably, because investment teams often don't have the skills or resources to analyse these aspects of a business, the source of much of the metrics used comes from third-party ESG data providers.

What we have seen, which we think is an error, are attempts at measuring how sustainable a fund or company is using only one metric. We feel this can be very misleading and can result in perverse outcomes in which capital is allocated to areas of the market that are not sustainable.

Sustainability ratings are useful but don't give you a complete picture because for any company they will depend on what is deemed most important, and people (and ESG ratings agencies) think different things are important. This is why you can get such variation between different ratings for the same company.

The often-quoted example is Tesla, the electric car manufacturer. Sustainability ratings for Tesla show a high amount of variation, with some rating the company as very sustainable and others as very unsustainable. The sustainability rating depends on how much weighting is given to the environmental aspect of the business as compared to the more social aspects of the business such as staff treatment, the safety record for workers and governance.

In another example, let us compare a big oil company with a childcare provider looking at emissions, decarbonisation targets and temperature alignment scores:

- The big oil company emits orders of magnitude of more direct and indirect emissions compared to the childcare company. Direct emissions are 225 times higher for the big oil company and indirect emissions are more than 1,000 times higher, amounting to a 657 million tonnes of CO_2e per year. To put this in perspective, this is 55% more than total UK emissions (excluding imports and airlines), estimated to be 424 million tonnes in 2021[2] .
- The big oil company is much larger than the childcare company, but even correcting for this size difference and using a carbon intensity of sales number, the big oil company emits 8.5x more direct emissions for every unit of sales.
- And yet they have very similar temperature alignment metrics of 5.3 degrees warming for the big oil company and 5.2 degrees warming potential for the childcare company. This assumes the companies meet any decarbonisation commitments they have made.

Both these companies achieve the second highest ESG rating from the external data provider because this metric is very focused on the decarbonisation targets and assumes these will be achieved. The big oil company has a target to decarbonise, the childcare company does not.

This temperature alignment metric is useful, but it does miss out other crucial elements, such as:

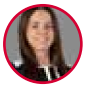
- how much does the company emit now, and therefore how likely is it that the company will meet this Paris Aligned rate of decarbonisation?
- are there other lower carbon alternatives to this company's products and services (what is the risk of major disruption)?
- how credible is their strategy to decarbonise?

Sustainability metrics are useful, but you need to understand what they measure and be able to explain inevitable discrepancies. Cross-referencing more than one metric helps get a more meaningful picture of how sustainable a company or fund is. For a more meaningful picture we must include other metrics such as:

- exposure to positive trends from the core business of companies;
- carbon footprinting that captures what businesses emit today; and
- the quality of engagement and how demanding investment teams are being of companies.


21 YEARS OF INVESTING FOR A POSITIVE FUTURE
Since 2001, the Liontrust Sustainable Investment team have been seeking companies that will help to create a cleaner, safer and healthier society in the future and generate attractive returns for investors
Past performance is not a guide to future performance. This advertisement should not be construed as advice for investment. Do remember that the value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.
2022
2012
2006
2017
For more information visit us at
liontrust.co.uk/sustainable
ZSL
LET'S WORK FOR WILDLIFE
Proud to support ZSL's work to save wildlife
NEWCASTLE UNITED FOUNDATION
Building a United Future
Proud to partner with Newcastle United Foundation for our numeracy programme, Financial Football
LIONTRUST
COURAGE · POWER · PRIDE
Issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business.

Back to bonds: an attractive starting point



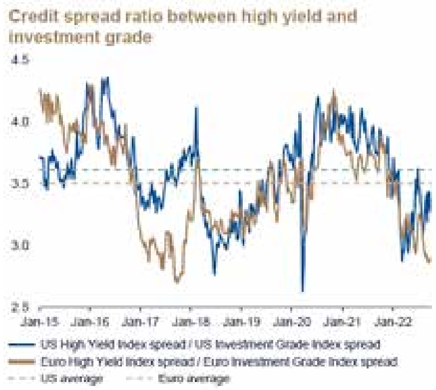
Rebecca Young
Fund Manager
Artemis

It is genuinely an exciting time to be a bond manager – and yes, to confirm, this is an upbeat message being communicated by a bond manager: you are not mistaken. In short, we have waited many years for competitive income to return to our asset class. Years of quantitative easing triggered a 'reach for yield' in fixed income markets that is currently unwinding as central bank liquidity fades. We fully appreciate that the broad-based repricing in fixed income markets year-to-date has been difficult for investors, but the outcome of the moves we have seen is that today's starting point is now more than sensible, it's attractive. We believe fixed income is setting up for compelling returns over the medium term and returns that will outstrip inflation over the coming years.

How do valuations stack up on a historical basis?

Source: BofA Merrill Lynch as at 14 October 2022. FTSE All-Share dividend yield.

Yields look attractive and competitive against other income opportunities. Importantly, investors do not need to dip down into the lower-quality credit spectrum (such as low rated single-B or CCC-rated credit) to obtain attractive levels of income anymore. With an economic backdrop in major developed world markets of still-elevated inflation and slowing growth (and central banks tightening rapidly), we believe it is prudent to avoid moving too far down the credit spectrum and prefer an 'up-in-quality bias' to our fixed income exposures. More specifically, in credit markets it is the higher quality investment grade space where credit spreads have readjusted meaningfully to levels where we believe we are getting more than adequately compensated to take on high quality credit risk. Especially given starting fundamentals for corporates broadly speaking are strong and particularly strong for this point in the cycle – including as measured by balance sheets, interest coverage, margins and liquidity levels. In addition, the relative credit spread compensation on offer today for investment grade credit compares favourably to high yield credit. In government bond markets, after being very cautious on valuations at the start of the year, we now see pockets of value emerging, by no means across the board, but our focus most recently has been on select markets that offer a positive real yield such as the US, Canada and New Zealand.



Source: BofA Merrill Lynch as at 30 September 2022.

In summary, given the broad-based fixed income valuation reset, investors do not need to take on an aggressive amount of credit risk or take a very long duration positioning (as government bond yield curves are fairly flat) in order to arrive at an attractive all-in yield. A good example of this is the sterling 1-3-year maturity BBB credit index, an investment grade short maturity index that yields 6.4%*, up from 1.7% at the start of 2022.

But what about inflation?

It will remain elevated in the short term, and we believe it will take time for inflation to normalise to levels that we are all more accustomed to. What we can say with confidence is we are getting ever closer to the 'zone' for peak inflation across the UK, Europe and the US – our core developed markets of focus. So, if we take today's fixed income yields and compare them against the likely medium-term profile for inflation in the UK (as currently priced by the market), we believe bonds are setting up for healthy returns over the medium term and returns that will outstrip inflation over the years to come.

'we believe bonds are setting up for healthy returns over the medium term and returns that will outstrip inflation over the years to come.'

Source: Bloomberg as at 18 October 2022.

Listed infrastructure – looking beyond the storm

Alex Araujo
Fund Manager
M&G

Listed infrastructure has provided a rare safe haven in a turbulent year for financial markets. Listed infrastructure's defensive qualities, combined with the ability to offer inflation protection by way of index-linked revenue and structural cashflow growth, have provided comfort in these tempestuous times. But we strongly believe that listed infrastructure offers compelling attributes long after the storm clouds have dispersed.

Listed infrastructure's defensive characteristics are widely acknowledged. We rely on infrastructure throughout the course of our daily lives. The reliable and growing cashflows generated by infrastructure assets can provide resilience in uncertain times, as well as diversification benefits for investors' portfolios.

But we strongly believe that listed infrastructure is also an asset class blessed with multiple growth avenues. Inflation provides many listed infrastructure companies with a vital source of growth. Listed infrastructure is also a beneficiary of long-term structural trends, such as renewable energy, digital connectivity and demographics.

Inflation has been cited as a potential risk for listed infrastructure and we would agree that strategies consisting mainly of bond proxies may struggle in an environment of rising bond yields.

By contrast, we expect the long-term effects for a growth-focused strategy to be considerably different. We advocate a modern approach to listed infrastructure which invests beyond the traditional realm of utilities, energy infrastructure and transport, to incorporate social infrastructure (health, education and civic services) and evolving infrastructure (which supports the digital economy). Dividend growth in excess of G7 inflation is an attainable target, in our view, with average annual increases in the region of 5-10% over the long term.

We see infrastructure as uniquely positioned to provide long-term solutions for the pressing issue of energy security. Russia's military intervention in Ukraine has highlighted Europe's heavy reliance on Russian gas, and has underscored the importance of not just alternative sources of supply, but alternative sources of energy.

We strongly believe that natural gas has a pivotal role to play as a key transition fuel in the displacement of coal to combat climate change, but it is also abundantly clear that renewables provide a more sustainable source of power generation over the long term. Infrastructure is front and centre of the long journey towards net zero carbon, a view endorsed by the United Nations.

"This is a moment of unprecedented opportunity for infrastructure to shape the sustainable development of our planet, driven by the urgency of the climate crisis"

Infrastructure for climate action, United Nations Office for Project Services (UNOPS), 2021

Infrastructure is critical to solving the current predicament of power generation from traditional sources. Utilities have a huge role to play in the energy transition by reducing carbon emissions and increasing renewables within the energy mix.

The attractions of infrastructure, particularly in the listed sphere, have not gone unnoticed. We have seen increasing corporate activity across the asset class, with ContourGlobal (utilities), Sydney Airport and CoreSite (data centres) recently receiving takeover bids. We believe these events provide a clear indication that some infrastructure assets are going cheap in the stockmarket.

The increased volatility in the stockmarket is presenting buying opportunities, in our view. The indiscriminate selloff in the real estate sector has provided attractive entry points for listed infrastructure companies structured as real estate investment trusts (REITs).

Our two new purchases this year each stem from the real estate sector: UK-based Segro provides our first foray into e-commerce infrastructure, while Alexandria Real Estate, a US REIT, provides access to life science infrastructure. Both companies benefit from powerful structural trends, which we believe will support continued growth over the long term. We remain optimistic about the long-term growth opportunities in listed infrastructure.

The outlook for blockchain and digital assets in 2023

Dr Christopher Mellor
Head of ETF Equity and Commodity Product Management
Invesco

Investors have endured a tumultuous year, and financial markets could be equally tricky to navigate in 2023 with genuine growth hard to find. The technology sector has languished along with most cyclicals amid signs of a slowing economy, and some segments may face further headwinds next year. However we believe blockchain might be an interesting theme to consider, especially with share prices of many of these companies having been dragged down with those of bitcoin and other cryptocurrency prices. Before considering the outlook, it's vital to distinguish between blockchain (the underlying technology) and cryptocurrencies (one of the applications using the technology).

Blockchain is a distributed ledger that records all transactions and balances in a system. This innovative technology is used to transfer assets more efficiently, without the need of an intermediary, with records becoming immutable once they are added to the chain. And while cryptocurrencies are the most well-known assets using blockchain, the technology can also be used to record and transfer practically any physical or digital asset, including data. The latter category will be increasingly relevant if digital identification is implemented in travel, voting, health care, etc., which also increases the need to ensure such personal data is stored and transferred securely.

Considering the potential for blockchain

You can compare blockchain to the evolution of the internet, where the first application was basic email to communicate between different computers. The first application of blockchain was bitcoin but, like the internet, the technology's full potential extends much further, and we probably haven't seen all the ways it could be used in the future. We expect blockchain to help companies potentially in every industry solve problems, reduce costs and improve efficiencies.

Realistically, we are not much beyond the "email stage" of blockchain's evolution. Regulators on both sides of the Atlantic have been looking closely at digital assets, and we could begin to see some clarity around the issues in 2023. Ensuring a robust regulatory framework could remove a major obstacle particularly for institutional investors.

Although investing in the blockchain theme is not the same as investing in a cryptocurrency, many of the companies involved with the theme will nonetheless have some link to the fortunes of those digital assets. For example, the revenue of a cryptocurrency exchange fluctuates according to trading volumes – which have fallen sharply this year – while crypto miners will see their profits vary with market conditions. As will likely be the case for most risk assets in 2023, keep an eye on when the Fed might eventually pivot and when we see an improvement in investor sentiment.

The technology is still new

Blockchain technology is still relatively new, as are its various applications, and developments are worth watching. This includes Ethereum's recent change to a Proof of Stake (PoS) protocol, which requires verifiers to put up a stake (tokens) instead of solving computational problems. PoS can address concerns over the energy-intensive nature of mining activities used in Proof of Work protocols. Also keep track of the work going on around central bank digital currencies (CBDCs), especially with Rishi Sunak's ambitions for the UK and as China ramps up use of its digital yuan.

We are also likely to see further progress in areas such as decentralised finance (DeFi), non-fungible tokens (NFTs), Blockchain as a Service (BaaS) as well as blockchain enabling even more futuristic ideas like the metaverse and Web 3.0. More generally, blockchain applications that help companies reduce costs and improve efficiencies could appeal to those companies looking to protect margins.

Gaining exposure to the blockchain theme

In 2019, we launched the Invesco CoinShares Global Blockchain UCITS ETF to offer investors exposure to companies that participate or have the potential to participate in the blockchain ecosystem. The ETF follows the CoinShares Blockchain Global Equity Index, which is designed to evolve with the blockchain technology[1]. That means you can expect the index – and in turn the ETF – to capture new opportunities as other applications of the technology become more economically significant and blockchain activities become a greater proportion of a company's overall business.

[1] Constituent weightings are subject to liquidity and UCITS constraints

2022 – a year of change

Ryan Hughes
Head of Investment Partnerships
AJ Bell

A year ago, many investors were filled with optimism that 2022 was set to be a year of solid GDP growth as the world continued its recovery from the COVID lockdowns. That view dramatically changed on 24 February when we woke to the news that Russia had invaded Ukraine. The impact on the global economy has been profound and will have lasting consequences, however it, of course, pales into insignificance on the awful impact it has had on the people of Ukraine.

With the huge spike in energy prices, investment in oil was thrust right into the spotlight. For the previous few years, the only talk had been about renewables, with many viewing oil as a dead asset. Given the focus on renewables, there weren't that many asset managers who had a decent position in the oil companies and it's led to a huge shake up in the performance tables, not least in the UK where it felt like the number of managers overweight in BP & Shell could be counted on one hand.

It wasn't just oil. Given the awful events in Ukraine, we had the odd spectacle of some arguing that weapons should be considered ESG investment given their potential ability to stop war. This doesn't do asset management any favours, as it must surely look to investors that the narrative shift is being done to justify performance rather than invest in a manner that investors can align with.

To tackle that issue, we had the long-awaited proposals from the FCA on sustainability disclosures and it may surprise some just how stringent these are. The proposed regime looks tighter than that used under SFDR in the EU as the FCA looks, quite rightly, to tackle the issue of greenwashing. While it will be some time before these proposals are in place, it will no doubt seriously impact planned fund launches in this space, with some asset managers maybe having to rethink how they position their ESG solutions.

With inflation rocketing, driven by energy prices, interest rates have followed suit as central banks look to try and bring it back under control. This has wreaked havoc on bond markets around the world with huge falls in what the textbooks tell us are low risk assets with the knock-on impact on supposed 'cautious' funds losing 20% of investors' capital in short order. Time will tell what this may have done to investor confidence at the lower risk end of the spectrum, while it could well be a long time before those investors get back to parity again.

It wasn't just bonds that have been hurt by rising interest rates. With many different assets priced off bond yields, anything with a financing risk has been hit. Many investors have sought shelter in alternatives while bonds have looked unappealing, but many of these investments have been caught up in the storm. That's not surprising when you consider how sensitive the NAV of many of these alternative investments is to the changing discount rate. Ultimately, a wide range of alternative assets have profited from being able to borrow cheaply, but there is no escaping reality when the cost of that borrowing rockets. Music royalties darling, the Hipgnosis Songs Fund (I had to get a musical reference in somewhere given this is Investival! found exactly this in recent months, with the share price tumbling by around 30%, proving that it was highly correlated to fixed interest assets just when investors needed it not to be. Then again 25% gearing will do that in difficult times.

Talking alternatives, once again the sorry saga of open-ended commercial property funds has reared its ugly head this year. With the cost of capital rising sharply and the prospect of a recession, investors have been selling out of what's left of the open-ended sector, causing at least one open-ended fund to suspend redemptions yet again. Perhaps this will give some impetus to the FCA to finally come up with the rules surrounding illiquid assets following their proposal to impose a redemption notice period of up to 180 days. The frequent suspending of these illiquid funds every time market conditions deteriorate can't be good for long-term consumer confidence. It was interesting to see that Janus Henderson, one of the stalwarts of the commercial property sector walked away from the market in April, selling their properties and giving investors their money back while Aegon followed suit.

All of this has occurred amid a backdrop of apparent chaos at a government level. I was lucky enough to be at the first speech of the new Chief Secretary to the Treasury under Liz Truss's short-lived premiership at the Investment Association's annual dinner, although little did I know at the time that it would also be Chris Philp's last speech in that role given he was promptly sacked the next day!

It's been hard to keep up with events during 2022, not just in the UK but around the world too. Investors crave confidence and certainty, with even bad news able to be digested if it is clear what is happening and why. The past 12 months have felt a long way from this and as such, it's little surprise that we have seen such volatility across bonds, equities and currencies. While it's easy to get consumed by negativity, particularly with the press telling us how bad things are going to be, it's important to remember that investment markets are forward looking. They will already be looking to price in the end of the rate hiking cycle, when inflation starts falling back, when company profits start growing again and many other factors. So, while 2022 has been a tough year for investors, it's vital to keep looking ahead to what's coming rather than behind at what's already passed.

Conclusion

Kevin Doran
Chief Investment Officer
AJ Bell

Well, here we are again. The end of another Investival (our 10th), another year (the worst for UK index-linked bonds in history) and on the cusp on another major regulatory initiative in the UK (Consumer Duty).

For customers, and those wonderful people who provide them with the assistance, advice and guidance to plan for their financial futures, the pace of change can be head-spinning, so it's nice to have a range of views and opinions on a range of asset classes from experts in their field all in one place. We hope you've enjoyed taking in the thoughts of all our contributors this year – highlighting the threats and opportunities that lay ahead.

For all the views on the world in the future, if 2022 has taught us anything it ought to be that even with the benefit of perfect foresight, investment can be a difficult occupation. Had we told you a year ago that the world would be the grip of the highest inflation in a generation, most investors would have prescribed a diet of inflation-protected bonds and gold to stave off the effects. A glance at the group of worst performing assets for the year features both, high on the list of offenders.

The rise of inflation brings into sharp focus a question that has been raised by economists for a quarter of a century, that must now be answered. Given the choice of economic growth and stability or price stability, which path will central bankers choose to take? In previous instances where this question has been posed, it has fallen upon politicians to answer it – this time around (for once in financial markets) it really is different.

Or is it? Though central banks all over the world now luxuriate in the waters of independence, this independence is one bestowed upon them by politicians, who the public will look to for answers should the path of recession, job losses and business failures be chosen in the name of keeping a lid on prices.

Remember this? A group of unelected bureaucrats, unaccountable to the public, operating behind closed doors and having profound impact upon the ordinary days of ordinary people? It was those words that led to the UK 'taking back control' in the Brexit referendum, but they're words that could as easily be applied to the Bank of England's Monetary Policy Committee – the group of nine individuals whose job it is to set interest rates and, in doing so, the costs of borrowing for tens of millions of people with mortgages, credit cards, car PCPs and business loans across the nation. Not to mention rates of return on savings, gilts and annuities.

If history tells is something, it should be crystal clear that desperate times often call for desperate measures. It's a story as old as time itself and often leads to the unexpected becoming almost inevitable. The deposing of a Prime Minister and her Chancellor in just 45 days provides ample recent evidence of this phenomenon if it were needed.

And so, our role as investors, advisers and trusted representatives of our industry is not to fear change, but to accept it as inevitable, plan for it and guide our customers and clients through the turmoil. We need to focus on the fact that change, as represented by uncertainty (or volatility), creates the conditions for generating rates of return over and above those that are 'risk free'.

Change is a given. The purpose of the weight of research, analysis, hypothesis and opinion is to help us anticipate change. For our part, at AJ Bell, we see the biggest source of potential change

to be the nature of bank independence. An independence that may not service its first challenge of truly high inflation. And on that likely contentious note, all that is left is for me to bid all our readers, advisers, paraplanners and support staff who entrust their client's investments to us a very merry Christmas and a happy New Year. We look forward to joining you on another lap of the sun next year.

Disclaimers

FOR PROFESSIONAL INVESTORS AND/OR QUALIFIED INVESTORS AND/OR FINANCIAL INTERMEDIARIES ONLY. NOT FOR USE WITH OR BY PRIVATE INVESTORS. This is a marketing communication. Refer to the fund prospectus and KIID/KID before making any final investment decisions. CAPITAL AT RISK. All financial investments involve taking risk which means investors may not get back the amount initially invested. Yields will fluctuate so income from investments is variable and not guaranteed.

Any research and analysis in this communication has been obtained by each of the firms listed for their own use.

Past performance is not a reliable indicator of future returns. Investors should note that the views expressed may no longer be current and may have already been acted upon. Changes in currency exchange rates may affect the value of investments in overseas markets. Some funds mentioned in this document can use financial derivative instruments for investment purposes, which may expose them to a higher degree of risk and can cause investments to experience larger than average price fluctuations. Investments in smaller companies can carry a higher risk because their share prices may be more volatile than those of larger companies. The shares in the investment trusts are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trusts can gain additional exposure to the market, known as gearing, potentially increasing volatility. Reference in this document to specific securities should not be interpreted as a recommendation to buy or sell these securities, but is included for the purposes of illustration only.

Marketing materials may only be distributed in other jurisdictions in compliance with private placement rules and local regulations. Investors should read the legal documents prior to investing.

UCITS ETF's units / shares purchased on the secondary market cannot usually be sold directly back to UCITS ETF. Investors must buy and sell units / shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units / shares and may receive less than the current net asset value when selling them.

This document should not be considered financial advice. Persons interested in acquiring the fund should inform themselves as to (i) the legal requirements in the countries of their nationality, residence, ordinary residence or domicile; (ii) any foreign exchange controls and (iii) any relevant tax consequences.

For the full objectives and investment policy please consult the current prospectus.

Investments include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile.

The annual management charge is deducted from the capital of the Fund. This will increase the income from the Fund but may constrain or erode potential for capital growth.

The issue of units/shares in some Funds mentioned in this document may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term. Investment in Funds managed by the Sustainable Future Team involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The decision to invest in a fund should take into account all the characteristics and objectives of the fund (inclusive of sustainability features) as described in the prospectus.

Please note some funds mentioned in this document invest mainly in company shares and are therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.
Further risks associated with these fund can be found in the fund's Key Investor Information Document.

References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities. This article does not take account of any potential investor's investment objectives, particular needs or financial situation.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by the subsequent firm. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes any fund or product to which Third Party Data relates.

The information contained herein is intended to be of general interest only and does not constitute legal or tax advice. The firms quoted in this brochure do not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials. The firms reserve the right to make changes and corrections to their opinions expressed in this document at any time, without notice.

Some of the information in this document may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document, and make such independent investigations as he/she may consider necessary or appropriate for the purpose of such assessment.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither the firms listed nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

Data as at October and November 2022 unless otherwise stated.

AJBell
Investcentre