Heartwood
Investment Management

July 2020

Investment Insight

Celebrating the first anniversary of our sustainable fund range

Our sustainable funds were launched in a year for the annals

Summer 2019
- Trade war fears impact stock markets

September 2019
- UK parliament prorogued ahead of Brexit deadline

December 2019
- Definitive Conservative Party general election win boosts the UK market

January 2020
- Identification of new virus following alerts in Wuhan, China
- Markets welcome the signing of Phase One of a US-China trade deal
- UK officially leaves the EU

February 2020
- First reported COVID-19-related death outside of China
- Italy becomes the first European country to enter lockdown conditions

March 2020
- Oil price war between Saudi Arabia and Russia begins
- Lockdown conditions imposed in the UK
- Low point for global financial markets during the crisis

April 2020
- One of the fastest stock market recoveries on record
- Oil price briefly turns negative

May 2020
- Lockdown conditions begin to ease in the UK
- Some early positive signs in COVID-19 vaccine trials

June 2020
- Lockdown conditions ease in many nations, leading to new pockets of COVID-19 infection

A remarkable opening year for our sustainable funds

When we launched our range of sustainable funds in July 2019, we could never have imagined the year that lay ahead.

From today's vantage point, a full year after the funds launched and as economies begin to tentatively emerge from lockdown conditions, the long-term investment landscape shows signs of promise, but it has been a remarkable 12-month journey.

Our sustainable funds' first full year of performance

Shown versus our core multi asset funds, target return (Consumer Price Index - CPI) and comparator benchmarks for UK stock markets and government bonds, as at 9 July 2020

	Defensive Sustainable Multi Asset Fund	Defensive Multi Asset Fund	CPI +1%	UK Equity	UK Government Bonds - Conventional
Total return	1.7%	-1.4%	1.5%	-16.7%	10.1%

	Cautious Sustainable Multi Asset Fund	Cautious Multi Asset Fund	CPI +2%	UK Equity	UK Government Bonds - Conventional
Total return	1.8%	-1.2%	2.5%	-16.7%	10.1%

	Balanced Sustainable Multi Asset Fund	Balanced Multi Asset Fund	CPI +3%	UK Equity	UK Government Bonds - Conventional
Total return	2.3%	0.3%	3.5%	-16.7%	10.1%

	Growth Sustainable Multi Asset Fund	Growth Multi Asset Fund	CPI +4%	UK Equity	UK Government Bonds - Conventional
Total return	0.8%	1.5%	4.5%	-16.7%	10.1%

Past performance is not a reliable indicator of future results. Source: Heartwood

Calculation basis: Sterling, total return, after all ongoing charges have been taken, which is inclusive of a 1% annual management charge and third party fees. Ongoing charges do not include transaction costs, which may also impact investment returns.

A favourable backdrop for sustainable assets, reflected in our funds

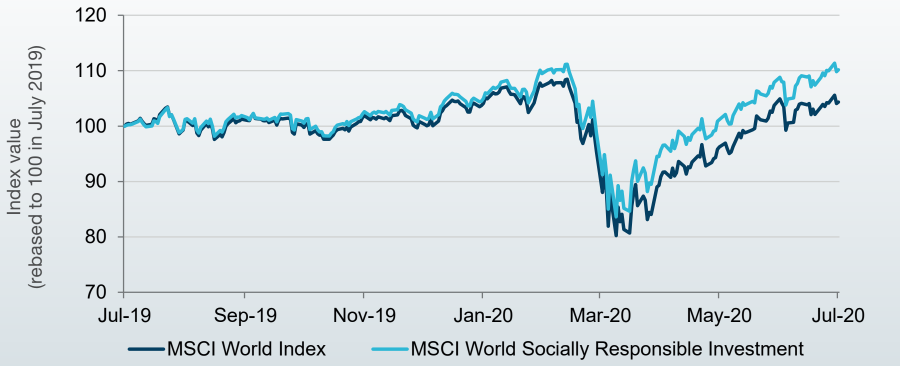
During the worst of the turbulence in financial markets this spring, sustainable assets fared relatively well, with the market pricing them comparatively favourably. This in part reflects investor priorities over the period, with more sustainable credentials (like good standards of corporate responsibility) prized as safer bets in an uncertain world.

During the market sell-off, our exposure to stock market indices tracking the best companies (based on an analysis of their environmental, social and governance credentials), added positively to fund performance. This is particularly the case when looking at the UK market. Within our exposure to 'alternative' asset types, we also saw our exposure to renewables, social housing and specialist healthcare property produce robust performance versus the broader market, as the chart overleaf shows.

> “Amid March’s rapid market falls, preconceived ideas about sustainable investing being inherently riskier proved to be unfounded.”
>
> **Matt Toms**
> Co-manager, Sustainable Funds

Shares of businesses with sustainable credentials have held up well

MSCI World Index versus MSCI World Socially Responsible Index (total returns)



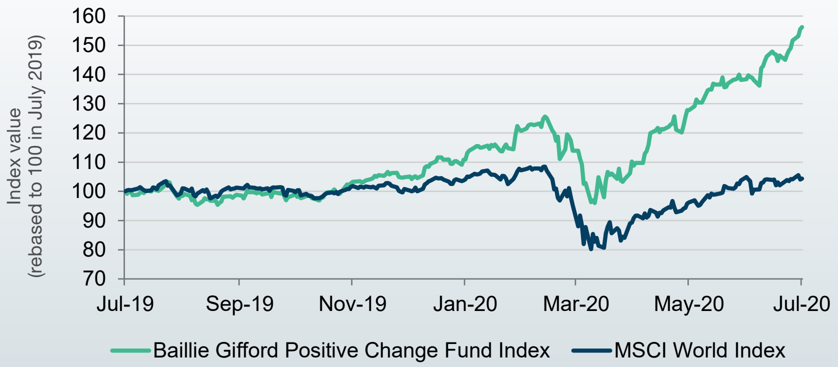
Source: MSCI, Macrobond

Past performance is not a reliable indicator of future results.

‘Impact sectors’ (where investments aim to generate a measurable positive social or environmental impact as well as financial returns) have also been impressive over the funds’ opening 12-month period. Our holding in Baillie Gifford Positive Change, which invests in companies driving social inclusion, environmental solutions, healthcare provision, and the base of the economic pyramid (the poorest socio-economic groups) is a particularly good example of this, as the chart below demonstrates.

Our impact fund holding impressed in the funds’ first year

Baillie Gifford Positive Change versus MSCI World Index (total returns)



Source: MSCI, Macrobond

Past performance is not a reliable indicator of future results.

More broadly, the trend towards growing awareness of good environmental and social credentials and robust corporate governance continues, and with it increasing interest in sustainably-focused investment products.

How have our funds evolved over their first year?

Increased emerging market debt holdings

Over the course of the funds’ first year, we increased our positions in emerging market debt. While developing countries are far from perfect, ruling them out as an asset class supports neither their human populations nor their development. By investing in democratic, high performing emerging economies, we believe we are incentivising good behaviour by national leaders as well as securing potentially compelling financial returns.

More high yielding credit

We also took on a new holding focused on high yielding areas of debt markets. We accessed this attractive opportunity via a newly available product, aiming to take advantage of COVID-19-related market weakness.

Strong growth in the size of our funds

As the year has progressed, we have been pleased to see the assets under management in the funds grow from £9m to £127m (as at 8 July 2020).

Reinforcing our committee of experts

We also welcomed a new member to our Sustainable Investment Committee: impact investing and sustainability expert Andrea Marmolejo. We look forward to gleaning further insight from her knowledge and experience.

Contact

To find out more about the Heartwood Sustainable strategies, visit our website or contact your local representative.

What next for our sustainable funds?

Our sustainable fund range has had a deeply eventful start to life. Over this remarkable opening year, we have made it our mission to ‘myth bust’ around sustainable investing, and this was held up in sharp relief amid March’s rapid market falls. Preconceived ideas about sustainable investing being an inherently riskier approach proved to be unfounded when our sustainable funds performed slightly better than our core funds in this period of market shock.

Peak-to-trough falls have been contained in our sustainable funds

Shown versus our core multi asset funds and comparator benchmarks for UK stock markets and government bonds, as at 9 July 2020

	Defensive Sustainable Multi Asset Fund	Defensive Multi Asset Fund	UK Equity	UK Government Bonds - Conventional
Maximum drawdown	-9.6%	-11.6%	-34.2%	-9.6%

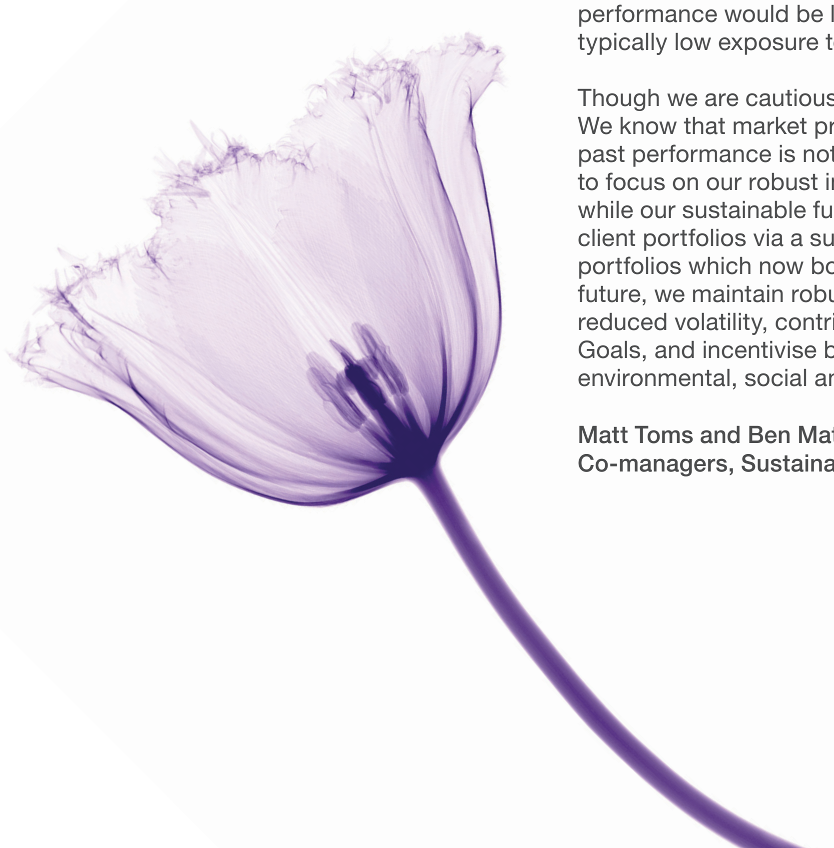
	Cautious Sustainable Multi Asset Fund	Cautious Multi Asset Fund	UK Equity	UK Government Bonds - Conventional
Maximum drawdown	-13.8%	-14.7%	-34.2%	-9.6%

	Balanced Sustainable Multi Asset Fund	Balanced Multi Asset Fund	UK Equity	UK Government Bonds - Conventional
Maximum drawdown	-20.2%	-20.7%	-34.2%	-9.6%

	Growth Sustainable Multi Asset Fund	Growth Multi Asset Fund	UK Equity	UK Government Bonds - Conventional
Maximum drawdown	-25.4%	-23.7%	-34.2%	-9.6%

Past performance is not a reliable indicator of future results. Source: Heartwood

Calculation basis: Sterling, total return, after all ongoing charges have been taken, which is inclusive of a 1% annual management charge and third party fees. Ongoing charges do not include transaction costs, which may also impact investment returns.



Even so, as we look to the future, we are conscious that not all of the helpful tailwinds pushing sustainable investing forward in recent months are likely to be perpetual. For example, if the embattled oil price were to rally, this burst of positive performance would be largely lost on sustainable investment funds, given their typically low exposure to this sector.

Though we are cautiously optimistic about the future, we are not complacent. We know that market preferences are fickle and changeable by nature, and that past performance is notoriously no guide to future returns. As such, we continue to focus on our robust investment process. It is perhaps worth remembering that while our sustainable funds launched just one year ago, we have been managing client portfolios via a sustainable approach for a number of years, including model portfolios which now boast a four-year track record. As we look forward to the future, we maintain robust long-term goals, aiming to deliver real returns with reduced volatility, contribute towards achieving the UN’s Sustainable Development Goals, and incentivise better government and corporate behaviour around environmental, social and governance issues.

Matt Toms and Ben Matthews
Co-managers, Sustainable Funds

Important Information

Past performance is not a reliable indicator of future results. The value of any investment and the income from it is not guaranteed and can fall as well as rise, so that you may not realise the amount originally invested. Where an investment is denominated in a currency other than sterling, changes in exchange rates between currencies may cause investment values or income to rise or fall. The portfolios may invest in funds which have limited liquidity, or which individually have a relatively high risk profile and/or are unregulated by the Financial Conduct Authority (FCA).

The funds' target return benchmarks are CPI (The Consumer Price Index) + 1% (Sustainable Defensive), + 2% (Sustainable Cautious), +3% (Sustainable Balanced) and +4% (Sustainable Growth). These have been selected as the target return benchmarks as the funds aim to achieve returns (the money made or lost on an investment) that are 1%, 2%, 3% and 4% respectively above the rate of inflation. The Consumer Price Index is used to measure the rate of inflation. Please refer to the funds' Investment Objectives for details regarding how achievement of the target return benchmarks are measured, and over what time period. The funds' performance may also be compared against UK Equities represented by MSCI United Kingdom Index (£) and UK Government Bonds represented by BoA Merrill Lynch UK Gilts Index (£). These comparator benchmarks have been selected as they assist in evaluating the funds' performance against the two principle asset classes that the funds may have exposure to. The share class of the funds were launched on 08 July 2019, performance figures do not exist before that time.

This material is directed only at persons in the UK and is not an offer or invitation to buy or sell securities. Nothing in it constitutes advice to undertake a transaction, and professional advice should be taken before investing. Performance is as at the publication date of the document and shown after all costs and charges have been taken. The data source is FactSet and Heartwood. This document has been issued by Heartwood Investment Management. For Heartwood Multi Asset Funds, the Authorised Corporate Director is Link Fund Solutions Limited and the registrar is Link Fund Administrators Ltd, both of which are authorised and regulated by the FCA.The investment manager is Heartwood. Before investing you should read the Key Investor Information Document ("KIID") as it contains important information regarding the fund including charges, specific risk warnings and will form the basis of any investment decision. The Prospectus, Key Investor Information Document, current prices and latest report and accounts are available from Heartwood, or Link Fund Solutions Limited, PO Box 389, Darlington, DL1 9UF or by telephone on 0345 922 0044.

Heartwood Investment Management (Heartwood) is a trading name of Heartwood Wealth Management Ltd which is authorised and regulated by the Financial Conduct Authority in the conduct of investment business, and is a wholly-owned subsidiary of Handelsbanken plc. This publication is intended to be Heartwood's commentary on markets and on its own investment strategy. It is not investment research and you should not treat this publication as a recommendation to buy, sell or trade in any of the investments, sectors or asset classes mentioned.

The value of any investment and the income from it is not guaranteed and can fall as well as rise, so that you may not get back the amount you originally invested.

Registered Head Office: No.1 Kingsway, London, WC2B 6AN | Registered in England Number: 4132340
020 7045 2600 | heartwoodgroup.co.uk | Part of the Handelsbanken Group