TAM ETHICAL PORTFOLIOS

QUARTERLY COMMENTARY : **Q1 2020**

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MARKET *Review*

The first quarter of 2020 saw global markets fall at an unprecedented rate from the all-time highs reached following an extremely strong year for markets in 2019. Equities posted losses in the region of 20-30%, with global fears about the spread of the coronavirus causing the fastest and deepest economic shock in history.

Some of the worst affected industries were travel and leisure, general retail and financials. The oil price declined sharply after Saudi Arabia launched an aggressive price war against Russia, just as the coronavirus outbreak hit demand, leading investors rushing to the safety of gold, the yen and government debt.

In March, central banks stepped up their efforts to counter the disruption to economic activity and impact on global GDP growth. The Federal Reserve engaged in two emergency interest rate cuts, taking the main policy rate to between 0 and 0.25%, and significant increases in asset purchases. Other central banks joined the co-ordinated effort to limit the economic fallout, with the Bank of England (BOE) cutting rates by 0.5% and the European Central Bank (ECB) launching a program of additional bond purchases and cheap loans to banks.

These measures caused only brief rallies in equities, as markets looked more towards the actions of national governments, many of which announced large spending packages and support for domestic businesses. The quarter ended with a sharp rally back in equities, although continued nervousness around the growing infection rate saw volatility persist into the final days of the quarter.

PERFORMANCE REVIEW

Ethical portfolios performed well over the quarter, with all portfolios outperforming their benchmark.

	PORTFOLIO %	BENCHMARK %	RELATIVE %
Defensive	(4.48)	(4.07)[1]	(0.41)
Cautious	(8.45)	(9.41)[2]	0.96
Balanced	(11.23)	(13.31)[3]	2.08
Growth	(13.82)	(18.35)[4]	4.53
Adventurous	(17.07)	(22.01)[5]	4.94

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

The largest detractors from performance came from small and mid-cap UK equities, which suffered from the liquidity squeeze at the smaller end of the market due to heavy selling pressure. Government debt was in high demand due to its safe haven qualities, which meant our lack of exposure to this asset class detracted from performance, as credit underperformed government debt.

Our underweight to the UK contributed to performance, with international exposure to regions such as Emerging Markets and the US outperforming the UK. The top contributor to performance came from our position in physical gold, which was one of few asset classes to deliver positive returns over the quarter.

PORTFOLIO ACTIVITY

We pulled equity positions down in a structured retreat ahead of continued legs lower in the equity market, which meant portfolio activity was higher than usual in Q1. We sold our direct exposure to European equities and took profits through a reduction to global equity funds. On the non-equity side, we gradually cut our corporate bond allocation.

There was one new fund addition to the non-equity allocation over the quarter, in the form of a sustainable global, unconstrained, multi-asset fund with an absolute return-like target and a strong emphasis on capital preservation. The fund invests in a diversified range of asset classes including equities, fixed interest securities, infrastructure, renewable energy, property and physical commodities.

OUTLOOK AND STRATEGY

The virus has undoubtedly disrupted the likelihood of modest gains in the first half of the year, with downward revisions to global growth expected. Nonetheless, we expect continued economic expansion, albiet on a lower trajectory, although the depth and duration of this market shock is still uncertain.

We believe that while the coronavirus has led to a short-term shakeout of markets, this is a welcome reset to the system, affording investors a chance to add another one or two years of steady gains as the global economy recovers from this shock. On a longer-term view, we believe these events have set the scene for a strong rebound – we cannot discount the fact that global stocks could well reach new all-time highs once again.

We will remain invested as we believe the rebound will be sharp, however we will maintain higher than average cash levels to quickly and efficiently redeploy capital at the first sign of any form of stabilisation in the global spread of the coronavirus. Opportunities include additions to areas that have been severely impacted by the crash and are now looking more attractive from a relative valuation perspective, such as UK, European and Asian equities, as well as high quality companies in the US market.

We will avoid firing all our ammunition on day one, as we appreciate that the worst of the virus is not behind us. Rather, we will conduct a gradual and controlled recommitment to the market, which we feel is the best way to capture a rebound as and when it comes.

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