

The future is bright for ESG

In 2020, those companies in the MSCI All Countries World Index (ACWI) screened by their sustainable impact outperformed the MSCI ACWI as a whole by 27.8%. This part of the market really led global equities and offered stellar returns for our clients investing in this space. In 2021 so far this index has lagged the broader ACWI by as much as 19% at -0.05% (as of 15-12-21).

Despite all our sustainable & impact focused equity managers comfortably outperforming this benchmark, within much of the same mandate, the portfolios as a whole are sitting slightly behind the risk-rated benchmarks we hold ourselves accountable to. These benchmarks reflect growth from equity and fixed income indexes unbounded by the strict environmental, sustainable and governance criteria we place on our ESG portfolios, thus when those factors provide a short-term headwind to returns underperformance can occur.

As things stand, the absolute gains on our ESG portfolio range remain in line with long-term annualised return targets which is reassuring, however, after c20% cumulative outperformance of our benchmarks since inception (in a balanced mandate), we have grown accustomed to comparing ourselves to a high

standard. We do however continue to be pleased with our performance in other facets of portfolio management, such as consistently taking on less risk than our benchmark and providing our clients with access to a high quality diversified portfolio of various ESG themes such as investing for positive change, as well as in those highest quality businesses embracing every characteristic of sustainability, across various geographies and asset classes.

TAM have endeavoured at intervals this year to communicate the broad headwinds facing ESG investing in financial markets in 2021. We continue to focus on the long-term growth opportunities in ESG funds and strive to work with investors to highlight why they opted to invest within an ESG mandate. Primarily because the companies our fund managers invest in are often looking to benefit from or drive multi-year structural ESG trends within industries. These companies remain primed for a very positive future in 2022 and beyond, and it is this long-term growth picture which keeps us so bullish on the broader ESG theme.

We are confident that active fund management remains the best way to navigate a complex long-term theme such as investing sustainably. The marketplace for these products is growing at a rapid pace and as the marketplace grows, so does our opportunity set. At TAM, our goal is to marry the long-term structural driver of ESG investing and all the opportunities it presents with our shorter-term macroeconomic outlook, akin to how we manage our core offering.

It seems to be every week that the team and I are approached with a new ESG offering across a growing number of asset classes. Although we are grateful for more choice, it is important to note that often funds do not make it through our stringent ESG and analytical criteria. A welcome theme for ESG investors in 2021 has been the industry growing more wary of greenwashing issues. Therefore, the FCA's 'Dear Chair' letter issued in July, warning ESG fund providers in the UK over disclosure and alignment of their ESG mandates, was one of many encouraging developments. TAM will always welcome industry-wide regulations and monitoring of this investable universe, and it forms a key pillar of how we will continue to invest in this space in the years ahead.

Looking forward, we intend to utilise the developments in 2021 to the benefit of our portfolios. As we see a wider array of funds available, we are more able to prime our portfolios to benefit from our best ideas as we move into the New Year. Notably, increasing exposure to sustainable Chinese equities which look primed to grow into 2022 as China revitalises itself - there is more on this from our team in our most recent investment note.

More funds coming to market also means we can go even further in our perpetual endeavour to deliver value for money for our clients, through accessing exciting funds from top fund houses at prices much below what is available to retail investors. However, it is important to remember positions that have struggled this year remain some of the best funds in the industry. Therefore, we will not be looking to completely jump ship, and in some instances they are being marginally increased as we aim to look beyond short-term volatility and embark on a multi-year pursuit of returns in ESG investing.

In conclusion, it has been a challenging year for the ESG market as a whole, as well as portfolios invested into it. However, this by no means represents a deterioration in the underlying quality of both ESG companies and the wider ESG market. We maintain the ESG opportunity set will continue to go from

strength to strength and this market remains one of the most exciting areas for clients to invest for the long-term. As such, TAM remain very positive on the outlook for these highly effective portfolios.

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