ABACUS ESG - DFM PROFILES
QUARTERLY UPDATE (Q4 2023)

tavistock
ASSET MANAGEMENT

Market Commentary

2023 was challenging for investors. Rising geopolitical concerns (Russia-Ukraine and Israel-Hamas wars), high inflation, burdensome interest rates, and worries over the sustainability of the US government's finances, were factors that weighed heavily on market sentiment.

That said, the US Central Bank (the Federal Reserve) seems to have managed to successfully bring inflation down and investors are now expecting a cut in interest rates in 2024. Cooling inflation in the fourth quarter, and the hope of lower interest rates to come, led to a sharp equity market rally into year end. The S&P 500 equity market in the US, for example, finished up 4.5% for the month of December and over 24% higher for the year.

Of course, all markets are different. For example, the 24% return we saw from the US market in 2023 was fuelled by the 7 big tech stocks (Apple, Microsoft, Google parent Alphabet, Amazon, Nvidia, Meta, and Tesla), which were responsible for 95% of the returns.

In contrast, the FTSE 100 equity market in the UK was up just over 3.5% in 2023, whilst Chinese equities fell -4% over the year.

Whilst the US economy is holding up well, growth in the UK and Europe is muted. Inflation in these two regions is also declining but it remains higher in the UK than other developed countries. The Bank of England has a battle to reach its inflation target, and ideally it would like to see wages come down before it considers cutting interest rates.

It is a delicate balancing act for central banks, and we remain concerned about the lagged impact of prior tightening. Specifically, the pace and scale of prior rate hikes and the shift from quantitative easing to quantitative tightening, pose real risks to the economy.

However, as we said last quarter, it takes a long time for the narrative described above to play out and we cannot rule out further market gains.

Inflation data has declined at a faster pace than the global economy has weakened, providing a tailwind for risk assets. If inflation continues to fall faster than the economy contracts, equities could continue to move higher.

With that in mind, we remain pragmatic and continue to question our assumptions and market outlook. Should the economic environment change, we will adapt as required.

ESG Profile Allocations

FUND	3	4	5	6	7	8
Aikya Global Emerging Markets Fund	0.00%	0.00%	4.50%	6.00%	9.00%	15.00%
Amundi MSCI Emerging Markets SRI PAB Index Fund	0.00%	0.00%	4.50%	6.00%	9.00%	15.00%
CCLA Better World Global Equity Fund	6.00%	9.00%	9.00%	11.00%	12.00%	13.00%
Schroders Global Sustainable Value Equity Fund	6.00%	9.00%	9.00%	11.00%	12.00%	13.00%
Baillie Gifford Responsible Global Equity Income Fund	3.00%	6.00%	6.00%	7.00%	8.00%	8.00%
CT Responsible UK Income Fund	3.00%	5.50%	6.00%	7.50%	8.00%	8.00%
Royal London Sustainable Leaders Trust	3.00%	5.50%	6.00%	7.50%	8.00%	8.00%
Impax Asian Environmental Markets Fund	0.00%	3.00%	3.00%	5.50%	5.50%	5.50%
Triodos Pioneer Impact Fund	0.00%	3.00%	3.00%	5.50%	5.50%	5.50%
Janus Henderson USA Sustainable Equity Fund	3.00%	3.00%	3.00%	3.00%	4.00%	5.00%
EdenTree Green Infrastructure Fund	0.00%	3.00%	3.00%	4.00%	4.00%	4.00%
BlackRock ICS Sterling LEAF	13.00%	3.00%	3.00%	3.00%	0.00%	0.00%
Aegon Global Sustainable Sovereign Bond Fund GBPH	12.00%	9.00%	8.00%	5.00%	3.00%	0.00%
Dimensional Global Sustainability Fixed Income Fund GBPH	12.00%	9.00%	8.00%	5.00%	3.00%	0.00%
Dimensional Global Sustainability Short Fixed Income Fund GBPH	12.00%	9.00%	8.00%	5.00%	3.00%	0.00%
EdenTree Responsible and Sustainable Short-Dated Bond Fund	8.50%	7.00%	6.00%	3.00%	3.00%	0.00%
TwentyFour Sustainable Short Term Bond Income Fund GBPH	8.50%	7.00%	6.00%	3.00%	3.00%	0.00%
BlueBay Global High Yield ESG Bond Fund GBPH	4.00%	3.00%	2.00%	0.00%	0.00%	0.00%
Schroders BlueOrchard EM Climate Bond Fund	4.00%	4.00%	0.00%	0.00%	0.00%	0.00%
Cash	2.00%	2.00%	2.00%	2.00%	0.00%	0.00%

OCF*	0.42%	0.54%	0.55%	0.62%	0.68%	0.73%

*OCFs as at 31/12/2023

Changes & Rationale

Funds Removed/Allocation Reduced

Allianz Green Bond Fund GBPH
See Dimensional Global Sustainability Short Fixed Income Fund GBPH

Amundi MSCI World SRI PAB Index Fund
See CCLA Better World Global Equity Fund

CT UK Social Bond Fund
See BlueBay Global High Yield ESG Bond Fund GBPH

Stewart Investors Global Emerging Markets Sustainability Fund
See Aikya Global Emerging Markets Fund

Funds Added/Allocation Increased

Aikya Global Emerging Markets Fund

The key decision makers moved from Stewart Investors (2) and Fidelity (1) to launch the Aikya fund about 3 years ago. Since then, the fund has enjoyed excellent risk-adjusted returns, outperforming the MSCI Emerging Markets IMI Index and a comparable Stewart Investors fund over that time. Consequently, the fund has grown considerably, even overtaking the Stewart Investors fund earlier in 2023.

BlueBay Global High Yield ESG Bond Fund GBPH

This is an asset class driven by income, not price, and now the income opportunity is historically attractive. With yields where they are, the asset class looks good from a total return perspective. Although spreads are a little tight, this is in part a reflection of the shift upwards in quality in recent years and this shift upwards in quality suggests that defaults, though rising, won't increase too much from here. The asset class tends to shine in a rising rate / flat interest rate environment, which roughly speaking is where we are now. Variable lags from restrictive monetary policy over the past few years will surely bite at some point but for now, High Yield corporates remain in good shape. Consequently, we have decided to add exposure to this asset class via the BlueBay Global High Yield ESG Bond Fund, which passes our Sustainable Investment Policy.

CCLA Better World Global Equity Fund

In the past we have felt comfortable using index funds in markets where we believe it is difficult for an active manager to outperform the index, for example large-cap equities in developed markets. However, the CCLA team have a strong track record and enjoy a best-in-class reputation from an engagement perspective. This combination provides justification for the slight increase in cost due to the swap from an index fund to this actively managed fund.

Dimensional Global Sustainability Short Fixed Income Fund GBPH

The purpose of replacing the Allianz fund with this fund, which is the short duration version of the other Dimensional fund in the fixed income basket, is to reduce the duration of the basket at low cost to align with recent changes across the Investment Toolkit.

Janus Henderson USA Sustainable Equity Fund

We have recently increased equity beta across the Investment Toolkit, in particular in the US. The most efficient way to reflect this change here is to add pure US equity exposure. The Janus Henderson fund takes a pragmatic approach to sustainable investing by targeting a range of sustainable development themes whilst avoiding companies which contribute to either environmental or social harm. The team actively manage the basket, explaining the high active share of more than 75% (typically) across roughly 40 constituents.

Funds Rebalanced

We adjusted exposure to the following allocations to better map to our tactical asset allocation.

Baillie Gifford Responsible Global Equity Income Fund
EdenTree Responsible and Sustainable Short-Dated Bond Fund
TwentyFour Sustainable Short Term Bond Income Fund GBPH

Performance

Performance over the last 12-months is as follows:

Abacus ESG Profile 3 - DFM	7.51%
Abacus ESG Profile 4 - DFM	7.81%
Abacus ESG Profile 5 - DFM	7.19%
Abacus ESG Profile 6 - DFM	6.95%
Abacus ESG Profile 7 - DFM	6.67%
Abacus ESG Profile 8 - DFM	6.30%

Source of Data: Titan Asset Management
Data as of 31/12/2023

Case Study / Theme

This quarter, we focus on COP28.

The most recent gathering of delegates for the United Nations' annual conference on climate change, COP28, was a complicated affair.

Held in the United Arab Emirates, a fossil fuel giant, and hosted by Dr Sultan Al Jaber, the head of Abu Dhabi's state-owned oil company, critics pointed to an obvious conflict of interest that risked stalling progress towards the decarbonization of the global economy. Indeed, leaked briefing documents showed that Al Jaber intended to use the conference to strike new fossil fuel deals.

That said, Al Jaber, who is also the chairman of Abu Dhabi's state-owned renewable energy company, ended up doing a mostly good job of bringing together all sides of the energy debate, a tricky process which culminated in the 'UAE Consensus' to transition away from fossil fuels.

This was the first time that fossil fuels were mentioned explicitly in this way at a COP, and signals that the work of future COPs must now focus on the operational challenges (and opportunities) of decarbonisation, not on questions over whether to proceed.

To that end, the final text called for the tripling of renewable energy capacity and the doubling of the rate of energy efficiency improvements by 2030 and included support for a range of cleaner (if not strictly renewable) energy sources like nuclear.

Calls to action aside, it is important to keep in mind that the successes or failures of multilateral initiatives like this one are to a large extent determined by the domestic politics of the day. In that sense 2024 is an important year because for the first time countries with more than half the world's population will vote in national elections.

The Tavistock Asset Management (TAM) Sustainable Investment Policy outlines our approach to sustainable investing, explaining how we separate leaders from laggards, and how we exclude certain controversial sectors from our investable universe. In other words, what we invest in and what we do not.

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