

# ACT Multi Asset Optimal Impact Strategy

## The EU pursues its climate goals as does the US with a more inclusive social angle

- Correction of both equity and bond markets in April weighed on performance.
- Equity bucket performance was negatively impacted by the counter-performance of social themes whilst planet-based themes outperformed.
- The EU announced new rules on zero emissions buildings and the manufacturing of key decarbonisation technologies whilst the US announced funding for climate and clean energy projects focusing on low-income communities.

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### What is happening?

In April, a notable correction swept through most equity markets, while bond markets reacted to a shift in the Federal Reserve's stance towards adopting a more accommodative approach. Alongside global financial adjustments, the European Council advanced its "Fit for 55" initiative, a strategic roadmap aimed at slashing greenhouse gas emissions by 55% by 2030. Under this plan, new regulations mandate that all new buildings achieve zero emissions status by 2030. Simultaneously, the EU enacted legislation to bolster the production of essential decarbonisation technologies crucial for meeting its ambitious climate and energy objectives. Meanwhile, in the United States, the Biden administration unveiled a significant \$20 billion funding allocation for various climate and clean energy projects, specifically targeting underserved communities, thereby signaling a commitment to equitable environmental progress.

**Positioning and performance:**


	<b>ACT MA OPTIMAL IMPACT</b>		
	<i>Dec-23</i>	<i>Mar-24</i>	<i>Apr-24</i>
<b>Net Equity</b>	<b>44,2%</b>	<b>48,8%</b>	<b>50,3%</b>
Equities	44,2%	48,8%	50,3%
Equities derivatives	0,0%	0,0%	0,0%
Risk Mitigation Strategies	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
<b>Fixed Income</b>	<b>50,5%</b>	<b>50,5%</b>	<b>47,8%</b>
Govies	17,8%	17,3%	14,6%
<i>Bond Derivatives</i>	0,4%	-1,3%	3,1%
High Yield Credit	1,8%	1,6%	1,8%
Investment Grade	28,6%	29,5%	27,8%
Emerging Debt	2,4%	2,1%	3,6%
<b>Diversification</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
<b>Cash &amp; Money Market</b>	<b>5,2%</b>	<b>0,7%</b>	<b>1,9%</b>

The equity segment experienced a downturn as nearly all our impact themes contributed negatively. Within our environmental focus, the "Sustainable Materials" theme was particularly affected by the correction in both Air Liquide and Linde, which faced soft industrial gas demand. Conversely, our "Energy Transition" themes, such as "Energy Efficiency" and "Renewable Energy & Infrastructure," suffered less than the overall market, benefitting from gains in significant holdings like Carrier and Taiwan Semiconductor in the former, and Schneider Electric and Nextera Energy in the latter. Additionally, our "Resource Scarcity" theme showed resilience amidst the downturn, buoyed by the positive performance of companies involved in preserving water ecosystems. However, our people-centric impact themes endured significant blows, with our "Social Inclusion" theme suffering from a double-digit drop in micro-lender Bank Rakyat and wireless communications tower operator American Tower Corp. Similarly, our "Healthcare Solutions" theme faced pressure, although AstraZeneca notably outperformed expectations following their quarterly results.

On the fixed income front, our impact bond portfolio also recorded a negative performance as investors digested the Federal Reserve's cautious approach to adopting a more accommodative monetary policy bias. While the increase in bond yields exerted a negative influence, this was partially offset by the growing carry. Demand for impact bonds remained strong in April, with green bonds seeing an uptick of just over 8% compared to the previous year, while social bonds witnessed their busiest April on record, marking a nearly 38% increase year-on-year. Sustainable bonds, which fund both environmental and social projects, also experienced a notable rise of 14.5% year-on-year.

In April, our equity exposure saw a slight increase despite the liquidation of several holdings, including some long-standing positions like HDFC Bank, now primarily a mortgage bank, as well as Sanlam, Clicks, Fleury, and Darling Ingredients. These divestitures were outweighed by new positions in renewable energy (Brookfield Renewable), energy efficiency (Hubbell), healthcare (CSL, Hoya), and digital security (Palo Alto), among others. Our allocation to impact bonds decreased, while our cash/monetary allocation saw a slight uptick.

**Focus stock of the month:**

**AstraZeneca**  : provides medicines to treat a number communicable and non-communicable diseases, hence contributing to SDG 3 (Good Health & Well-being). Commitment to accessibility is demonstrated through a range of access programmes. During the pandemic, AstraZeneca partnered with University of Oxford which resulted in the company producing and distributing more Covid-19 vaccines than any other developer. The company also showed strong commitment to affordability supplying the vaccine at no profit during the pandemic and to low-income countries in perpetuity. AstraZeneca's disclosure is excellent and granular detail is offered across access initiatives, business ethics, human capital management and environmental footprint, with targets set across the board. We also appreciate AstraZeneca's demonstrated ability to deal with several controversies, which inevitably grew during the pandemic period following increased media coverage and public attention.

**Outlook**

In April, financial markets reverted to the notably positive correlation observed last summer, as rising interest rates eroded bond values, and equities underwent corrections, leaving few safe havens in multi-asset portfolios. Robust US inflation data reignited doubts about the assumption that the Federal Reserve had concluded its monetary tightening and was gearing up for rate cuts in the future. However, our optimistic outlook for risky assets, particularly equities, hinges not on a specific timetable for Fed policy rate adjustments, but rather on the subsequent trajectory and ultimate destination of policy decisions. Equities' valuation is thus more intricately tied to interest rate volatility than to their absolute levels. While short-term market turbulence is expected, we maintain confidence that monetary tightening is in the rearview mirror. Tightened financial conditions, affecting households and smaller businesses primarily through bank lending, have already had a significant impact. Although large tech firms benefit from high short-term interest rates due to substantial savings, smaller enterprises and middle-class Americans face greater vulnerability. As market confidence in rate cuts grows, irrespective of timing, it should mitigate interest rate volatility, lending further support to equities. Additionally, the broadening scope of equity market performance reinforces our positive outlook on equities.

Interest in impact investment persists, notwithstanding a slight wane in appetite over the past year in key markets like the US and the UK. Nonetheless, approximately half of surveyed US investors and 60% of UK investors still find impact investing attractive. For this sizable investor cohort, the desire is to align investments with companies dedicated to advancing societal and environmental causes alongside financial returns. Impact investing, underscored by defined and measurable positive outcomes, offers a means for investors to effect tangible benefits for both the planet and society. According to the same survey, there is a heightened interest in addressing social issues, with healthcare concerns surpassing environmental ones among impact investors surveyed. Meanwhile, opportunities for impact investing continue to expand, with public equity and debt markets playing integral roles in achieving positive outcomes. The UN estimates an annual investment requirement of \$5-7 trillion to meet its Social Development Goals (SDGs), while pivotal sectors like utilities and autos must transition to cleaner energy to achieve their Net Zero targets by 2050. Meeting these objectives necessitates the involvement of large publicly listed companies focused on these goals, thus presenting opportunities for impact investors. Within the AWF Act Multi Asset Optimal framework, we persist in addressing the urgent climate crisis by investing in companies and projects facilitating decarbonization through renewables, energy efficiency, green buildings, and low-carbon transport. Additionally, we target companies and projects tackling barriers to equity and prosperity, emphasizing healthcare solutions, social inclusion, and empowerment within underserved communities.

\*Bloomberg 03/05/2024

\*\* InvestmentNews 28/03/2024 referencing a study on Impact Investing done by the American Century Investments in December 2023.

\*\*\* T. Rowe Price "Fostering Change with Impact Investing" April 2024.

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