ACT Multi Asset Optimal Impact Strategy

According to G7's impact taskforce the welfare of the Planet and People are linked

- Exposure to Green bond increased
- Positive performance driven by Social Impact equity themes
- "Low Carbon Transport" and "Smart Energy struggled

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What's happening?

Global stock markets rebounded in December despite the Omicron variant still dominating the narrative as surging new cases worldwide translated into more limited growth in hospitalizations. Impact bonds suffered as some major Central banks began to tighten monetary policy.

Whilst December delivered a major disappointment with the US Senate scuttling the "Build Back Better" Bill, there were key concrete measures to address the reduction of carbon emissions. The US administration decided to target vehicle emissions given transportation represents the single largest source or 29% of GHG emissions, with passenger cars and trucks making up 58% of all transportation emissions. The U.S. Environmental Protection Agency (EPA) thus announced its new standards which should translate into over a 28% decrease in fleet-wide emissions by 2026. The European Commission decided to focus on more energy efficient buildings given buildings are the single largest energy consumer in Europe, accounting for 40% of energy and 36% of greenhouse gas emissions. A series of legislative proposals were unveiled to decarbonize EU buildings, promote the uptake of low carbon gases by households, and reducing methane emissions.

Positioning & Performance:

ACT MA OPTIMAL IMPACT

	Dec-20	Nov-21	Dec-21	Δ
Net Equity	47,60%	52,10%	**53,00%**	
Equities	47,40%	52,10%	53,00%	
Equities derivatives	0,20%	0,00%	0,00%	
Risk Mitigation Strategies	0,00%	0,00%	**0,00%**	
Fixed Income	47,60%	34,40%	**37,90%**	
Govies	13,80%	7,20%	8,10%	
Bond Derivatives	1,80%	-27,50%	-23,20%	
High Yield Credit	2,20%	3,40%	3,60%	
Investment Grade	31,60%	23,80%	26,10%	↑
Emerging Debt	0,00%	0,00%	0,00%	
Diversification	0,00%	0,00%	**0,00%**	
Cash & Money Market	4,90%	13,50%	**9,10%**	↓

Source: AXA IM as end of December 2021

The performance of the impact themes within our equity bucket rebounded in December's rally. Social Impact themes fared better with the steeper yield curve boosting financial services companies within our "Financial & Tech inclusion" theme whereas our companies accessing "Essential Services" rose strongly led by Veolia Environment which announced an early warning system for identifying the corona virus in wastewater. "Healthcare Services" theme also rebounded led by the better performance of Centene, US managed healthcare company at the heart of the Pandemic and EM drugstores such South African Clicks and Brazilian Raia Drogasil. Most planet side impact themes continued to lag, despite the concrete announcements in this domain, as "Low Carbon Transport" continued to struggle with ongoing supply chain disruptions whilst "Smart Energy" solutions suffered from the correction following the strong performance for some names such as Ameresco, provider of electric energy solutions. Our Resource Scarcity themes fared better led by "Recycling & Waste Reduction" which resumed its previous rally.

On the Fixed Income side, the slightly negative performance of our impact bond bucket weighed slightly on overall performance. However, demand for Green, Social and Sustainability bonds continues to rise reaching $1 Trillion at the end of 2021, more than doubling the amount issued in all of 2020, with Green bonds accounting for just over half total issuance.

In December, we made very few changes to the portfolio as we prepared to increase the size of our existing holdings as our AUM increased five-fold. In this context, we increased our bond exposure whereas our equity exposure rose marginally as our cash allocation decreased. We continued to maintain our focus on Planet based themes linked to the Energy Transition and a better management of the planet's resources given our exposure to Green bonds as well as equity names linked to "Smart Energy" and "Low Carbon transport" as well as themes related to "Resource Scarcity" whilst continuing to privilege social impact themes such as "Healthcare Solutions" and "Financial & Tech Inclusion" within our equity bucket as well as a variety of social projects within our Impact bond bucket.

Focus stock of the month:

Capitec Bank Holding is a leading retail bank in South Africa, focused on the mass market, with a deep philosophy that emphasizes accessibility and affordability. Capitec Bank offers savings, insurance, credit facilities, and online banking services. According to the World Bank, efficient, accessible and safe payment systems and transaction accounts are critical for financial inclusion. The focus on low-income groups and responsible banking practices means Capitec contributes to SDG 8 (Decent Work and Economic Growth "with expanded access to banking and financial services"). Capitec is also the largest digital bank in South Africa, accounting for c.64% market share of monthly bank app users, as digitization contributes to increasing accessibility.

Outlook:

Despite Omicron's wobble, we expect equity markets have further to run in 2022, even if the balance of risk is less supportive than in 2021. In our view, equities should post modest positive returns this year mainly driven by higher earnings. Our macroeconomic scenario is for the post-COVID rebound to persist and global growth to remain slightly above potential in 2022, albeit decelerating. A bigger source of concern and uncertainty in our 2022 outlook is inflation. The sharp acceleration in demand for goods coupled with supply-side shocks has resulted in increased inflation pressures. Whilst inflation should ease across major economies, we expect it to remain slightly above the Fed's target in the US for some time, while euro zone inflation should come back within the ECB's tolerance range. In this context, the Fed stopped characterising inflation as transitory and announced a tightening of its monetary stance including three rate hikes this year, with most Central Banks following suit. In this environment, real yields should start to gradually normalize in 2022 from their lowest level in nearly 50 years. If US real yields do indeed rise, this will likely be the most important theme across markets over the coming year and suggests some potential downward pressure on asset valuations, including corporate credit. We would also expect volatility to rise. Reactivity and selectivity will be key.

The G7's Impact Taskforce released its recommendations for global impact investing. On the one hand, this will be driven by the shift from a voluntary approach to one where formal government imposed disclosure is required not only on environmental, social and governance factors but also to prompt investors and companies to focus on their impact on societies and stakeholders more broadly, whether it be workers, communities, customers, or the planet more broadly. In addition, institutional investment capital must be mobilized at scale in order to convert expressions of commitment to action by building capabilities and putting the same level of effort into the consideration of new investments advancing the UN's SDGs (United Nations' Sustainable Development Goals) as exists to reducing the carbon footprint in existing portfolios. Finally, the taskforce concludes that the welfare of the Planet and People are linked: environmental issues cannot be addressed without attending to the needs of people - their livelihoods, health and well-being. According to the Global Impact Investors Network (GIIN), the impact investing market exceeds $715 billion with more than 1,720 organizations in the world[1].

With regards to our Impact approach, we continue to address the ongoing challenges of an urgent climate crisis by investing in companies and projects that provide the solutions towards decarbonisation through Smart Energy solutions including Renewables, Energy Efficiency or Green Buildings as well as Low Carbon Transport. On the social side, the resurgence of the pandemic linked to Covid 19 variants such as Delta, and now Omicron continues to warrant the need to focus on companies and projects which provide a positive impact in terms of Healthcare solutions as well as companies promoting financial and technological inclusion or access to essential services.

[1] Global Impact Investing Network's 2020 report

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