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Clean Economy strategy

We expect corporate profitability to remain healthy for the third quarter earnings season

- Global equities made positive progress over September as more economically sensitive and value orientated sectors performed well
- We saw strength in the Smart Energy theme with the positive contribution of NextEra Energy and Kingspan
- We initiated a position in Cree (leader in silicon carbide power electronics), and in Genus (provider of cattle breeding and agricultural consulting services)

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What's happening?

Global equities made positive progress over the period, as more economically sensitive and value orientated sectors performed well. A steepening of the US yield curve provided the stimulus for this wider style rotation. After a weak performance year to date, value as an investment style performed strongly, with the energy, material and financial sectors outperforming as a result.

Portfolio positioning and performance

The portfolio outperformed the benchmark during the period. Within Sustainable Transport, Borgwarner contributed positively to performance, as it recovered earlier underperformance. Within Responsible Nutrition, Deere & Co outperformed on little news. In Smart Energy, both Kingspan and Nextera contributed positive performance.

During September, we initiated a position in Cree Inc (a leader in silicon carbide power electronics), which benefits from the electrification of vehicles. In Responsible Nutrition, we initiated a position in Genus, which offers cattle breeding and agricultural consulting services to improve the productivity of its farming customers globally. We increased our exposure to Ecolab which is a global market leader in water technology and services. We reduced our exposure to Coats Group, global market leader in threads, with a strong focus on sustainability. Although well positioned within its market, the business is nevertheless exposed to deteriorating conditions in some end markets.

Outlook

The ongoing uncertainty surrounding trade conflict is currently weighing on investment activity and there is evidence of a slowdown in growth. Recent economic data has highlighted that many parts of the global industrial economy are in recession. However, similar to the industrial economic downturn in 2014-15, at this stage we do not anticipate this to develop into broader economic recession at this stage, and note continued strength in broader macro data particularly from the US.

Company outlook statements indicate a divergence of confidence depending on both geographic exposure and the ability of the business to add value to their customer base. With limited negative profit pre-announcements for the third quarter earnings season, we expect corporate profitability to remain healthy. Overall, we continue to expect global equities to generate modestly positive earnings growth this year. The liquidity backdrop is supportive and healthy, growing dividend yields offer additional support to markets whilst macroeconomic uncertainties persist. Any de-escalation of trade rhetoric would be treated positively by investors. The portfolio retains its bias towards high quality businesses which benefit from clear secular growth trends within the Clean Economy.

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