# DID YOU SEE...?

In this section we highlight any developments at FEIFA over the last month or more, where relevant, which you may have missed - plus any potentially relevant and useful articles from our Associate Members and/or other appropriate sources. For articles in the Member's Hub, you will, of course, need your usual password.


**Feifa News**

- FEIFA launches unique Recruitment Hub
- FEIFA becomes carbon neutral
- New member: MWC

**Masterclass Seminars & Webinars Q4 2024**

- Hub home page
- Synopses of the presentations

**FEIFA ESG Platform**

- Guide to ESG reporting
- Guinness: webcast
- Alquity: new documents, webinar and video
- Guide to ESG risk
- SFDR Article 8 & 9 funds to disappear?

**Media articles**

- What new regulations mean for "offshore bonds"

**FEIFA Annual Conference 2023**

- Conference Hub
- Product and service information from sponsors
- Presentation synopses, slides and speaker bios
- Keynote synopses and speaker bios
- Panel session info
- VoD: recordings of the presentations, keynotes and panel session

# Ethical investing and outperformance: conflict or opportunity?

**By Scott Levy, at Bedford Row Capital.**

For all the talk in the markets about the importance of sustainability and green investing and the future of the planet, the markets do not appear to be agree. Recent analysis of Green and Sustainable Bond Indices (Bloomberg) shows quite marked underperformance from the ordinary investment grade corporates. This may just be because of the restrictions on how indices are created but also may be a sign of the future underperformance of mainstream green markets.

*Source: Bloomberg. Global Investment Grade Debt v Global Aggregate Social Bond Index and Bloomberg aggregate Social Sustainability Bond Index*

So, does this mean that sacrificing 8% per annum for social and sustainable purposes is ok? It may be hard to explain to investors however.

If social and sustainable investing is underperforming then perhaps ethical investing offers an alternative? Having said that, is it ethical to be investing for return? Is profit ethical? Why not? Businesses can be run in an ethical manner; this is a key point in the EU regulations SFDR and the important **DNSH – do no significant harm**. The alignment between ethical conduct and DNSH is not absolute and it should be quite obvious that an ethical business should be profitable so it can continue to make a positive impact. Ethics and profits should be aligned and if you follow the logic which, taught in all business schools, is that business ethics and ethical business practice SHOULD be more profitable. Is it?

*Source: Bloomberg. Ethical Focus Equity Fund backtested v FTSE100*

Launching the first week of October, the Trilogy SICAV – Ethical Focus Equity Fund sits on the Rothschild UCITs platform and is classed as an Article 9 fund. Rothschild has one of the best reputations in the market for sustainable and impact investing; the Ethical Focus Equity Fund brings together a unique mix of stringent ethical screening, low risk equity portfolios (4/7) and best in class providers. What makes this fund special?

- **Ethical Screening**
  The detailed company screening excludes obvious industries like alcohol, weapons, tobacco and gaming. The ethical restrictions not only ensure that the investee companies "Do No Significant Harm" but more importantly, the Fund backs businesses which have strong ethical considerations as to how they run their business.

- **Risk Rating – 4/7**
  Based on the above table, it is perhaps surprising to see a relatively low risk rating for the Fund. Lower volatility is a reason. Perhaps this is a sign that the ethical business not only are growing in appeal but actually do have more sustainable business models in the long run. One aspect of the ethical screen is that companies are excluded with high levels of debt. Overall, this demonstrates a lower volatility of the performance and contributes in a large part to the risk rating of 4/7; the KIID which is available from **www.pharusmanagement.com** of course will provide more details.

- **Structure**
  UCITs of course requires as we all know, the highest level of integrity around security selection. Virtually no "unlisted shares" would be allowed by Rothschild (unlike some of the household names in the UK are now admitting). The investment manager, Pharus, manages over 2Bn of assets and an experienced management team. The combination with Rothschild and the deep history of sustainable investing makes for a unique offering both structurally and reputationally.

The Ethical Focus Equity Fund is available from Rothschild through either direct investing or a number of platforms, which grows every day as the demand from investors for clarity of purpose and impact become more important. The Fund has secured the support for initial seeding of around 50m and with an AMC of 0.875% for retail investors should continue to demonstrate that ethics and outperformance are not only possible but easily accessible.

For further information contact **Vladimir Malenko – vladimir@bedfordrowcapital.com** or tel: **+372 5888 3202**.

# The pieces of the TAM investment jigsaw

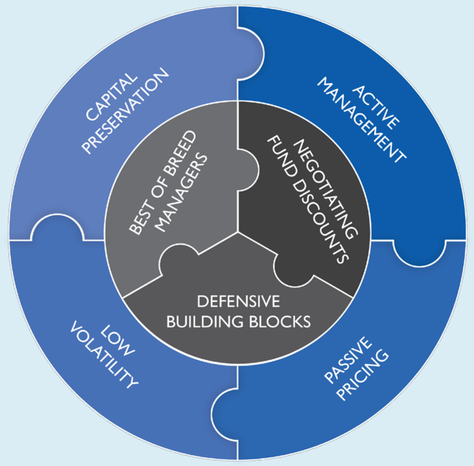
*"Once you complete a puzzle, you know that you have made all of the right choices."*

The quote from the 2018 film, 'Puzzle' certainly resonates with me. I remember from my days as a financial adviser, the pure delight seeing all the pieces of a financial plan coming together to fulfil my client's investment goals.

At TAM, we do our upmost to effectively piece together every part of the puzzle, to provide clients with a complete investment jigsaw. We tend to favour a traditional approach at TAM, so begin with the edges.

**Active management**

Active management is a constant for TAM's team. Markets are in a new paradigm and a client's assets have to be nimble enough to react quickly to capitalise on opportunities and move away from risks. Get this right and the performance will follow.




**Passive pricing**

In today's DFM market, high-quality active portfolios shouldn't cost the earth. We consistently aim to unearth the best managers in the industry at the best prices we can achieve. This enables us to provide clients with the best combination of active investing with passive portfolio charging.

**Low volatility**

The point where active management meets capital preservation is where you find low volatility portfolios. TAM's focus on actively defending

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# Resolving the 'Active vs Passive' debate


**Lorraine Reddaway, RBC Brewin Dolphin's Business Development Manager, EU Inter-mediaries, explains how both active and passive investment strategies form part of the portfolio construction process at RBC Brewin Dolphin.**

Active funds always seem to be pitted against their passive counterparts (and vice versa); there seems to be constant sparring to be crowned the superior investment strategy. At RBC Brewin Dolphin, we have the luxury of being able to utilise both to maximise returns across our strategies whether we are constructing a bespoke DFM, a model-based strategy (Global Investment Strategy) or a PFIC compliant portfolio.

## Passive Investments

The objective of passive investment management is to track a specific index, commodity, bond or basket of assets (where the underlying marketable fund will hold the same weights as the underlying index itself). This might be a better-known index, such as the FTSE 100, S&P 500 or gold bullion, but more specific countries, sectors, industries or sub-industries can also be targeted. The passive fund extension into smart beta, an enhanced indexing strategy that seeks to exploit certain performance factors, has offered the opportunity to invest in certain investment characteristics (such as dividend growth or high returns on capital), albeit at not such an attractive price as the more vanilla versions.

The advantages of passive investment are obvious: they provide a convenient and inexpensive marketable vehicle to gain exposure to assets that either might be cumbersome and expensive to buy direct (such as gold bullion) or logistically challenging to buy direct (imagine investing in every company on the Russell 2000). Investments might be in a specific industry or market expertise where the competitive environment is ever-changing (think cyber security, where the playing field moves with every new threat and resulting technology to combat it – secular growth of the sub-industry is strong but it's near impossible to select a couple of winners) or the outcome might be binary, which is a common profile for emerging fintech and biotech companies. Passives could just provide diversification and benchmark exposure.

## Active Investments

Active managers, on the other hand, have the objective of outperforming that same index by taking advantage of market inefficiencies; an active manager will use an index as a benchmark. They will have large weightings in stocks within their benchmark (where they see opportunity), will omit holdings in the benchmark that they might consider of inferior quality or expensive, and could buy stocks outside of their benchmark, all of which contribute to their active share.

Active managers look for opportunities where assets are mispriced and can respond to them; there is likely to be more mispricing in markets that are less researched and less liquid, such as emerging markets and small cap. We select active managers to provide exposure to such markets, where we are humble enough to accept their expertise over ours; experience and a deep cultural understanding of the underlying market are of significant value.

Changing market environments can present mispricing opportunities: active managers performed strongly in 2020 when Covid-19 brought about dramatic and swift changes in consumer behaviour, which active managers capitalised on. The 'stay at home' stocks boomed while leisure stocks languished; active managers were able to act accordingly.

But I would argue that one of the biggest benefits of active management for our clients is that you can be the 'tortoise' rather than the 'hare' if you have the benefit of a longer time horizon. Warren Buffett and Terry Smith share our philosophy that companies with superior returns on investment and the ability to reinvest those proceeds will outperform over the long run. Compounding cash returns over time is invaluable. While our own outperforming researched equity list provides opportunities for the direct equity exposure within client portfolios (Buffett's Berkshire Hathaway is included within that list), we also recommend Fundsmith (Smith) and other quality active managers for our investment managers to utilise across our range of DFM portfolios.

## Portfolio Management

Therefore, portfolio construction is critical. Whether we are creating a multi asset DFM portfolio or something with a higher passive element such as our low-cost GIS range of portfolios we are always considering the use of passive as well as active exposures. Indeed, our specialist PFIC compliant portfolio solutions balance the use of directly held assets with passives to create the portfolio's required characteristics. With a long-term investment horizon and our extensive research capability we can invest in quality assets that will outperform our benchmark over the longer term, while accessing external active management capability in those markets and strategies where we require additional expertise. We can also use passive funds when we wish to capture specific exposure or diversification.

Our aim is to design long term quality portfolios that can navigate the market cycles while capturing mispricing opportunities along the way. It would be foolish not to utilise everything that we have in the tool kit.

For further information contact **Lorraine Reddaway – lorraine.reddaway@brewin.co.uk** or tel: **+44 (0)1962 798 020**.

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# The pieces of the TAM investment jigsaw

clients' assets has helped us to deliver some of the lowest volatility portfolios over both the short and long term. The best phrase to describe us would be "a safe pair of hands."

## Capital preservation

Anyone can make money when markets are performing well. A manager's real skills come into play when those profits need defending. Capital preservation is exactly where TAM focusses most of its efforts to ensure clients' investments are never too far from a safe harbour. Some call us boring, but in a market as volatile as this one, we take that as a compliment.

As we have all probably had the misfortune of learning at some point in our lives, you cannot complete a jigsaw without all the pieces, so whilst the edges assist in building the framework, the centre pieces are essential to completing the puzzle.

## Negotiating fund discounts

1/3 of TAM's active portfolio comprises discounted share classes.

Funds in this category are investments TAM have uncovered as the winners of tomorrow, a requirement which we see as mandatory for any good portfolio manager. Owning the next generation of investment leaders can often come with significant discounts on offer for seeding these funds. One of TAM's goals is to find these next gen winners and secure them at often 50 - 90% discounts on fees. This is an area where TAM can deliver real value for money for clients.

## Defensive building blocks

1/3 of TAM's active portfolio comprises defensive ETFs.

This part of the portfolio is key to offering a low risk and cost-efficient solution to global markets. We believe there is an optimal level of investment into active funds but also a great need for defensive investments into strong, market-tracking building blocks to help dampen clients' overall risk. Using these investments helps to enhance our tried and tested fund selection process.

## Best of breed managers

1/3 of TAM's active portfolio comprises our alpha drivers.

This part of the portfolio is reserved for funds which offer the best longer-term opportunities for our clients. Often exciting fund managers with long track records of outperformance in a part of the market we like. We believe these funds, despite having a tendency to be more expensive, add significant value in their own right. Given our focus on being cost efficient, we have a budget to invest into these highly effective managers.

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