

Socially (Un)Acceptable

by Michael Clough

You tend not to hear too much from the city of Leicester here in the UK but it has played host to a number of historical events over the years and I'm proud to say I lived there for nine years before being drawn to the bright lights of London. In 2013, the remains of King Richard III who was killed at the Battle of Bosworth in 1485 were unearthed underneath a car park in the city centre. Then in 2016, Leicester City Football Club completed one of the greatest sporting successes of all time by winning the Premier League title, a result that bookmakers priced at a very unlikely 5000/1. Unfortunately, Leicester has been in the news for more upsetting reasons recently. A spike in renewed coronavirus cases forced the city back into lockdown as the remainder of the country began to ease restrictions. Then, just a week ago, reports came out suggesting that workers in a factory were being paid below the national minimum wage whilst working in unsafe conditions. The inexorable growth of environmental, social and governance (ESG) awareness has been impossible to ignore. We started the year with a huge emphasis on the 'E' with Extinction Rebellion's vehement protests highlighting environmental concerns. However, several stories since then and throughout the coronavirus pandemic have pushed the 'S' agenda higher.

One established high street retailer faced a backlash in March as it attempted to keep stores open (and thus exposing employees to health risks) despite government orders for all non-essential retailers to close. Another, a pub operator, was criticised after its chairman stated 'I don't see why employees shouldn't work for supermarkets for the time being' after their premises were closed. Hardly a message that would make you feel valued as an employee. These are more blatant examples of 'S' errors of judgement. The developing news in Leicester over the past week has taken a different form and has highlighted transparency difficulties when evaluating social risks in a company. The factory in question manufactures clothes for a popular online fashion retailer here in the UK and that company has come under scrutiny for its association with the supplier.

Social criteria can be difficult to measure and they don't necessarily lend themselves to quantitative metrics that environmental and governance matters might. Whilst simple screens may highlight certain ESG risks at a company, the story in Leicester this past week has shown that to have a true understanding of these risks investors must do more and engage with companies at a much deeper level.

Critics have said the coronavirus pandemic and resulting economic implications might push ESG discussions down the agenda once again with strong balance sheets and profits trumping attractive ESG scores. That certainly doesn't look to be the case. There have been noises for years of interest in sustainable strategies but flows have never really followed. That appears to be changing now. Last week Blackrock announced they have already doubled inflows into their sustainable ETF strategies so far this year when compared to 2019 as a whole. Elsewhere, Morningstar revealed, in their 2020 Q1 Global Sustainable Fund Flows report, their sustainable universe amassed over \$45bn of net inflows in the first quarter this year, compared to a \$385bn net outflow for the overall fund universe.

The past few months have shown that companies can be punished for not keeping up and abiding by sustainable principles. As signatories to the UN Principles for Responsible Investment (PRI), Momentum is committed to ensuring the managers we invest in understand and assess the environmental, social and governance risks in each of their companies and fully account for them in their analysis and evaluation. With one eye on our managers it would be remiss not to also look more inwardly, leading ESG considerations to be more explicitly showcased in our own solutions going forward.

“
Social criteria can be difficult to measure and they don't necessarily lend themselves to quantitative metrics that environmental and governance matters might
”

“
investors must do more and engage with companies at a much deeper level
”

“
There have been noises for years of interest in sustainable strategies but flows have never really followed. That appears to be changing now
”

“
The past few months have shown that companies can be punished for not keeping up and abiding by sustainable principles
”

Market Focus

- » Cases of Covid-19 have reached 12 million globally
- » Key US technology benchmark reaches new all-time high
- » Brent crude rose 1.0% ending the week at \$43.2 a barrel
- » Gold rose 1.5% to end the week at \$1798.7 an ounce

US

- » New cases of Covid-19 rose above 60,000 in a day
- » Democratic presidential nominee Joe Biden unveiled his economic plan to 'Build Back Better', including an investment policy to create manufacturing jobs in the US
- » The ISM non-manufacturing index came in at 57.1 against the 50.2 consensus
- » The number of job openings increased in May to 5.4m against 4.5m expected
- » The Fed's balance sheet shrank for the fourth week, with its total size back below \$7tn
- » Initial weekly jobless claims fell to 1.3m in the week through to 4th July against 1.4m expected in its 14th week of falls

Europe

- » The European Commission revised down their forecast for Euro Area growth for this year to -8.7% against -7.7% forecasted in May
- » ECB President said that the Eurozone faces two years of disinflation
- » Bank of France Governor said the country's economy is recovering faster than expected, and IMF forecasts may be too pessimistic
- » The composite PMI for the Euro area was revised to 48.5 from the flash 47.5
- » Euro Area retail sales print for May exceeded expectations with a 17.8% increase
- » German industrial production rebounded 7.8% in May, against an 11.1% rebound expected

UK

- » Chancellor Rishi Sunak announced a new package of fiscal stimulus policies, which could be worth up to £30bn in total, including a job retention bonus for employers
- » The Chancellor also alluded to future fiscal tightening, saying that "we will put our public finances back on a sustainable footing"
- » There seemed to be little progress in Brexit negotiations, as the EU's chief negotiator tweeted that the latest discussions "confirm that significant divergences remain"
- » Construction PMIs jumped to 55.3, against 28.9 in May

Rest of the World/Asia

- » Hong Kong asserted its new police powers under the new security law, including online surveillance and property seizures
- » Japan eased coronavirus-related restrictions on major events as planned - 5,000 people are now allowed at major events versus 1,000 before
- » Following positive economic data in June, analysts in China forecast that the economy will grow between 2-3% in 2020

Asset Class / Region	Currency	Cumulative returns			
		Week ending 10 July	Month to date	YTD 2020	12 months
Developed Markets Equities					
United States	USD	1.8%	2.8%	-0.7%	7.9%
United Kingdom	GBP	-1.0%	-1.2%	-18.7%	-17.4%
Continental Europe	EUR	0.6%	2.2%	-7.1%	0.0%
Japan	JPY	-1.1%	-1.5%	-9.6%	0.2%
Asia Pacific (ex Japan)	USD	2.8%	6.9%	0.4%	7.5%
Australia	AUD	-2.3%	0.4%	-10.1%	-8.3%
Global	USD	1.5%	2.7%	-3.2%	4.5%
Emerging Markets Equities					
Emerging Europe	USD	1.2%	2.7%	-22.6%	-15.9%
Emerging Asia	USD	4.2%	8.6%	4.8%	15.4%
Emerging Latin America	USD	1.0%	5.6%	-31.6%	-31.3%
BRICs	USD	5.8%	11.1%	2.7%	10.6%
China	USD	7.5%	13.2%	17.2%	29.1%
MENA countries	USD	0.9%	1.9%	-14.8%	-16.8%
South Africa	USD	3.9%	7.1%	-18.7%	-19.3%
India	USD	0.9%	5.2%	-15.7%	-13.8%
Global emerging markets	USD	3.6%	7.8%	-2.8%	4.5%
Bonds					
US Treasuries	USD	0.5%	0.4%	9.6%	11.8%
US Treasuries (inflation protected)	USD	0.3%	0.7%	7.1%	9.3%
US Corporate (investment grade)	USD	0.7%	1.3%	6.4%	11.2%
US High Yield	USD	0.3%	1.1%	-2.8%	0.8%
UK Gilts	GBP	0.4%	0.2%	10.1%	11.1%
UK Corporate (investment grade)	GBP	0.6%	0.9%	4.2%	6.8%
Euro Government Bonds	EUR	0.4%	0.3%	2.4%	2.6%
Euro Corporate (investment grade)	EUR	0.3%	0.4%	-0.8%	-0.3%
Euro High Yield	EUR	0.1%	0.5%	-4.8%	-2.1%
Japanese Government	JPY	0.2%	0.2%	-0.9%	-1.5%
Australian Government	AUD	0.3%	0.1%	4.2%	4.7%
Global Government Bonds	USD	0.8%	0.9%	5.6%	6.8%
Global Bonds	USD	0.7%	0.9%	4.5%	6.2%
Global Convertible Bonds	USD	1.6%	2.8%	7.8%	11.9%
Emerging Market Bonds	USD	-0.1%	0.7%	0.3%	2.1%

Source: Bloomberg. Past performance is not indicative of future returns.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 10 July	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	-3.2%	-1.2%	-20.0%	-18.2%
Australian Property Securities	AUD	-5.1%	-0.7%	-23.4%	-28.4%
Asia Property Securities	USD	-2.4%	1.6%	-17.3%	-16.0%
Global Property Securities	USD	-2.2%	0.6%	-19.3%	-15.8%
Currencies					
Euro	USD	0.5%	0.5%	0.6%	0.4%
UK Pound Sterling	USD	1.3%	2.0%	-4.8%	0.9%
Japanese Yen	USD	0.6%	0.9%	1.6%	1.4%
Australian Dollar	USD	0.0%	0.8%	-1.2%	-0.3%
South African Rand	USD	1.5%	3.6%	-16.7%	-16.5%
Swiss Franc	USD	0.4%	0.7%	2.7%	5.2%
Chinese Yuan	USD	0.9%	0.9%	-0.5%	-1.8%
Commodities & Alternatives					
Commodities	USD	1.8%	3.4%	-23.1%	-21.2%
Agricultural Commodities	USD	1.4%	2.4%	-8.9%	-6.9%
Oil	USD	1.0%	5.1%	-34.5%	-35.5%
Gold	USD	1.5%	0.8%	18.1%	27.4%
Hedge funds	USD	0.6%	0.7%	-0.4%	3.4%

Source: Bloomberg. Past performance is not indicative of future returns.

For more information, please contact:

Anastasiya Volodina
Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.

© Momentum Global Investment Management Limited 2020