



Ethical RL2

Quarterly Report to 31 March 2025

Objective

To provide capital growth by investing in a diversified portfolio of funds classified as investing with an ethical outlook.

Strategy

The portfolio utilises funds investing both in equities and/or fixed interest assets. The funds used all meet strict ethical and socially responsible criteria and mainly do this by excluding investment in certain sectors and industries. In order to meet the desired Risk Level, the portfolio is constructed to meet the IA's guidelines for a Mixed Investment 20-60% Shares fund.

Market Commentary

Within UK fixed income markets it was the high yield, non-investment grade bonds which continued to post the strongest gains. Whilst credit spreads, i.e. the additional amount of yield investors demand for holding more risky assets, remain tight relative to history, default levels remain benign. We did see some widening, however, towards the end of the period, as economic concerns arose and as 'liberation day' approached, where we would learn the extent of the tariffs the US were going to impose on goods arriving from other countries.

Meanwhile, a greater level of volatility and lower returns were seen in investment grade and government bond markets. Price movement in these markets is driven to a much greater extent by the perceived and actual direction of inflation, economic growth and therefore interest rates. With inflation continuing to remain 'sticky' in many countries, maintaining a level above central bank targets, interest rates saw little downward movement during the quarter. Yield curves have seen a little steepness return, but are still relatively flat compared to their normal upward sloping shape.



We saw a great deal of divergence across equity market returns during the quarter in local currency terms. Within the UK, concerns regarding economic growth weighed on the performance of those stocks more heavily reliant on the domestic economy. This meant that both mid and small cap indices succumbed to weakness, with both in negative territory. Conversely, large cap stocks continued to power ahead, with the large cap index posting a return in excess of 6%. Large cap stocks typically derive a large proportion of their earnings from overseas. The index was also helped by its sector breakdown which is more defensive than others. A low level of exposure to technology stocks finally proved a benefit rather than a hinderance.

US equities struggled during the quarter. Technology stocks were negative as sentiment towards the sector turned. A weaker outlook for economic growth weighed on the sector, which was compounded by high share valuations. After a strong period following the inauguration of Trump, smaller companies share prices also succumbed to weakness. The weaker outlook, changes in regulation looking like they will take longer to come through, along with the potential inflationary impact of tariffs, all weighed heavily as these stocks gave back all of their previous gains and then some.

The more defensive nature of the European equity markets in terms of sector breakdown, along with lower valuations, meant we saw a positive change in sentiment, leading to outperformance against most other developed markets.

Performance

The portfolio posted a return of 0.63% for the quarter. This was ahead the return posted by the IA Mixed Investment 20-60% Shares sector average of 0.20%. There are of course many, if not most, funds within this sector which do not invest to an ethical mandate.

The strongest performing fund during the period was the Troy Ethical Global Income fund. The quality investment style bias was a key contributor to this performance, focussing on those businesses with high returns on invested capital that are supported by resilient franchises with competitive advantages. A lower exposure to US equity stocks than other global equity funds was also beneficial. In addition, the quality focus was a positive for the Troy Ethical Income fund, which invests predominantly in UK equities.

The weakest performing fund was the CT Responsible UK Income fund, the only one to post a negative return for the period. The fund tends to have an allocation of between 40%-55% in mid and small cap stocks. At the index level, these stocks underperformed relative to large cap stocks on the back of domestic economic growth concerns, on which they are more reliant.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

During the quarter a number of changes were implemented to ensure that the portfolio was in line with the required risk level. The exposure to abrdn Ethical Corporate Bond was reduced on the basis of weaker performance and greater levels of volatility shown compared to the other fixed income funds held in the portfolio. Exposure to Jupiter Ecology and abrdn Global Sustainable Equity was removed on the basis of performance and volatility characteristics, with the allocation awarded to Troy Ethical Income and Troy Ethical Global Income, meaning that the exposure to equities overall was maintained. The portfolio was then rebalanced.

We continue to review the underlying funds that are used within this portfolio. Not only must they be suitable in terms of their performance, but also the ethical criteria which they follow, typically achieved through negative screening. Before we allocate to any funds within the Ethical portfolio, we review these screening rules which are applied to ensure that the fund is investing in line with restrictions which we would expect to see.

When reviewing these funds therefore we are careful to ensure that negative screening is also applied, which rules out investment in companies involved in what would be deemed non-ethical activity. The applying of these screens can lead to underperformance relative to the broader market, particularly when sectors/stocks typically excluded perform well, such as oil, tobacco or commodity miners.

Disclaimer

The portfolio is managed on a discretionary basis therefore the investment manager may make changes to the investments held without notice. Investors are agreeing to the investment model as recommended by an Adviser and may not be investing into the specific assets included in this report.

Past performance is not a guide to future performance. The value of investments and any income from them can fall as well as rise and are not guaranteed, so you may get back less than you invested. If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.

Consideration should be given to whether it is felt that the outcome of any risk assessment is accurate and advice should be sought for factors such as investment objectives, the investment term, attitude to risk, capacity for investment loss and the level of inflation.

This illustrative document is intended for investors where advice has been given by Advisers. Models are prepared in accordance with the stated objective and not client circumstances. Information from given sources is taken to be reliable and accurate, which Lowes Investment Management Ltd cannot warrant for accuracy or completeness.

Lowes Investment Management is authorised and regulated by the Financial Conduct Authority (192938).