Ethical Income and Growth 7
Whitechurch Ethical Investment Solutions

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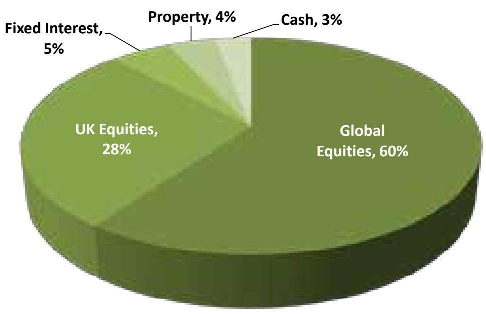
This week we look at our highest risk ethical portfolio, Prestige Ethical Income & Growth 7. This was the third strategy to be launched in our Prestige Ethical range, and it has just passed through its first anniversary.

It is satisfying to report that the strategy has made a strong start, returning 17.1% over its first year versus a return of 18.3% from the ARC £ Equity Risk Private Client Index.

	1 month	3 months	6 months	12 months
Prestige Ethical Income and Growth 7	1.3%	5.3%	7.4%	17.1%
ARC £ Equity Risk Private Client Index	-0.4%	3.7%	5.6%	18.3%

Source: Whitechurch Securities Ltd, FE Analytics
Performance figures are calculated to 30/04/2017 net of fees in sterling. Unit Trust prices are calculated on a bid-to-bid basis OEICs, Investment Trust and Share prices are calculated on a mid to mid basis, with net income reinvested. The value of investments and any income will fluctuate and investors may not get back the full amount invested. Currency exchange rates may affect the value of investment.

Current Asset Allocation and fund selection of the Prestige Ethical Income and Growth 7 strategy



UK Equities
- F&C Responsible UK Income
- Premier Ethical
- Standard Life UK Ethical
- Unicorn UK Ethical Income

Global Equities
- F&C Responsible Global Equity
- Henderson Global Care Growth
- Jupiter Ecology
- John Laing Environmental Assets
- Liontrust Sustainable Future Global Growth
- Renewables Infrastructure Group
- Pictet Water
- Standard Life European Ethical

Fixed Interest
- Rathbone Ethical Bond

Property
- F&C Property Growth & Income

Whitechurch Ethical portfolios are built using a range of funds which employ a negative screen to take out key areas of concern, as an initial starting point, but also have a positive criteria overlay - seeking out companies providing solutions for a changing world.

Areas we avoid

In our last Ethical update, we mentioned our belief that companies that are socially responsible and embrace sustainable growth methods are potentially market leading businesses of the future. Adopting this methodology and implementing these practices can make companies better managed, more efficient and attractive for investors.

Unfortunately, not all companies operate in this way and at the current time this approach leads to the exclusion of certain asset classes, geographies and industries which in turn can lead to performance differentials when compared to standard benchmarks.

Overleaf we look at the key areas that are currently excluded from the Prestige Ethical strategies and which have contributed to performance differentials.

Alternative Assets

The Whitechurch Prestige Ethical range of portfolios does not invest in alternative assets (e.g. absolute return funds) at the current time due to lack of suitable investment vehicles in this area. We allocate the money which would otherwise be in this space back into the bond, property and cash and, where the risk budget allows, back into the equities.

Geographies

Whilst the way many businesses are run is changing, and they are moving away from business practices that many find unacceptable the governance in many parts of Asia and the Emerging Markets is still not strong enough to allow us to invest in these areas.

Although we are seeing a marked improvement in many companies in these areas it is still a work-in-progress and the choice of funds available for investment is very limited. However, the landscape is changing rapidly and we would hope before long that a suitable investment vehicle will be available to allow access to these markets for higher risk level investors.

Industries

The nature of the screening leads to the complete exclusion of several sectors such as mining, oil and gas, defence and tobacco as well as the exclusion of companies in other sectors.

How does all this translate into an investable universe?

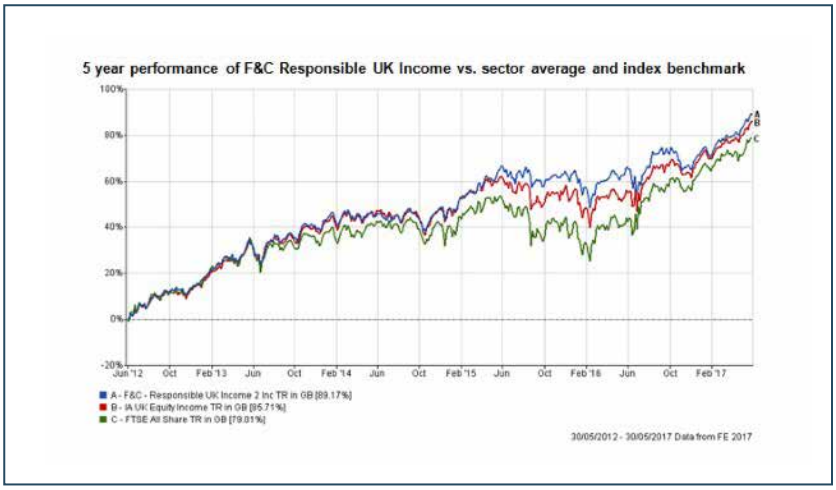
If we look at the main UK large cap index, this means just 24 stocks are excluded. Whilst this doesn't sound too onerous, on a market cap basis, this equates to roughly 40% of the index!

As a result, a lot of Socially Responsible Investing funds will end up looking in the small and mid cap space for stocks to invest in, leading to a markedly different portfolio to that of the index benchmark it is often compared against. However this does not mean the funds have to underperform.

We can evidence this by examining the performance of the F&C Responsible UK Income fund (a fund we hold in the Ethical portfolios) versus the IA Equity Income sector and the broader UK market. See the graph below. Despite the restrictions from holding certain companies and industries, this has not had a detrimental effect on longer-term performance.

Whilst the exclusion of investment from certain sectors and geographies can lead to performance differentials we believe that the approach taken by many of the fund managers we use to invest for a changing world (as discussed in our update of 05.05.17) gives plenty of scope for strong future growth.

Whitechurch Investment Team, June 2017



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