EQUINOX

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How your wealth can change the world

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Welcome

The last 18 months have been challenging and rewarding in equal measure.

Our purpose of making people's lives better has never been more important, and I love hearing the almost daily feedback from our clients about how we have helped them to live the life they want, look after those they love and leave a powerful legacy.

This issue focuses on how, as investors, we can make a positive difference in so many ways, but having a positive impact certainly shouldn't be at the expense of returns. At Equilibrium, we believe that investing in companies with great culture, who treat their suppliers and team well and who are proactively trying to reduce waste and their carbon footprint will be the winners of the future.

All our portfolios have rebounded well from the COVID lows, and Mike Deverell will dive into the detail and share what we have been doing to increase returns and safely manage risk in the second half of this magazine.

As always if you have any feedback, I would love to hear from you at colin.lawson@equilibrium.co.uk

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FOUNDER

Made from 100% recycled paper

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BY MIKE DEVERELL

How your wealth can change the world

What is the best way to engage other firms and fund managers in creating a better future?

“Divestment has been a waste of time, energy and resources.”

At least, that is the view of Cary Krosinsky, Professor of Sustainable Finance at Yale and Brown University.

For many years, the favoured approach of investors who are concerned about environmental, social or governance (ESG) issues has been to simply avoid companies that don’t fit their criteria. However, there has recently been fierce debate about whether it is better to instead remain invested in such stocks and try and influence those companies via engagement.

Krosinky is clear that divestment “...doesn’t solve the climate problem. These companies don’t disappear if a handful of people decide not to own these companies,” he told the Citywire Wealth Manager podcast.

Omit the emitters?

According to a 2017 report from the Carbon Majors Database, just 100 companies have been responsible for 71% of all carbon dioxide and equivalent (CO2e) emissions since 1988.

This includes state-owned companies such as China Coal and Saudi Arabian Oil Company (Aramco), as well as large, listed firms such as ExxonMobil, Royal Dutch Shell and BP.

If we want to reduce the CO2e emissions linked to our investment portfolio then the simplest thing to do might be to avoid these 100 companies!

There is an investment case for keeping exposure to a minimum as well as a moral one. In the future we expect stronger legislation in relation to CO2e as well as potential carbon taxes, both of which could impact these companies’ profits.

The big question however, is whether divesting makes any difference to how a company behaves. If a company is already listed on the stock market then it has already received funding from investors.

What happens to the company’s shares once they are listed has little effect on what happens within the company. Divesting just means you are selling the shares to someone else. The ownership changes but the same people are still running the company.

Divestment might influence behaviour if enough investors took part, since the CEO’s bonuses are probably linked to the company’s share price in some way. However, to have a big enough effect on the share price this would have to encompass the vast majority of institutional investors, not just the odd “sustainable” fund.

Instead, climate activists have recently been taking a different approach.

Changing the culture

People often feel like a company has an ingrained "personality". We like to do business with firms who we think share our values.

However, a company is not a living, breathing thing. The culture of the company reflects the people that run it. Changing that culture can be difficult and takes time, but there are many examples where this has been done successfully.

One company we find in many responsible investment funds is Orsted, the world's largest developer of offshore wind power. They were named as the world's most sustainable energy company in the Corporate Knights Global 100.

But 20 years ago, it is unlikely you would have found Orsted in "green" portfolios. Orsted used to be a very different firm. Until 2017 it was known as Dansk Olie og Naturgas – meaning Danish Oil & Natural Gas. It was originally founded to manage oil and gas resources in the Danish sector of the North Sea, but gradually transitioned to renewable energy during the 2000s and 2010s.

It may be more difficult to change the culture of a firm like ExxonMobil but that is just what a group of activist investors aims to do.

Led by a hedge fund called Engine No 1, investors have succeeded in appointing three independent directors to Exxon's board. By working from within, they aim to improve the company's environmental credentials, which they believe will also lead to increased returns for shareholders.

This is part of a growing movement of shareholder activism. In May, BP was forced to strengthen its climate commitments after 79% of investors voted for a shareholder resolution, against the advice of the firm. Similar moves have forced action from Chevron and BHP Billiton, amongst others.

Investors can only force through resolutions or board appointments if they own shares in a company. Divestment runs counter to this, and effectively means some of the most engaged shareholders on climate issues don't get a vote.

Being good stewards

At Equilibrium we act as the stewards of our clients' capital. We hold investment funds on their behalf, and we believe we should be responsible owners.

Likewise, the funds we invest in hold the shares in companies on our behalf, and we expect them to be good stewards too.

Our stewardship policy reflects our desire to make sure our voices are heard. It sets out our own commitments and also our expectations of the fund managers we invest with.

The policy was developed after feedback from clients and staff following several focus groups. These groups included a mixture of individuals who are very passionate about ESG issues, but also those who admit to being less knowledgeable.

The feedback from both groups was extremely encouraging and has helped us to shape our approach.

The stewardship policy sets out the following:

- We expect the fund managers we invest with to be signatories of (and adhere to) the United Nations' Principles of Responsible Investment (PRI).
- We expect fund managers to engage positively with the companies in which they invest, and to use their votes appropriately.
- This includes voting positively in respect of "climate critical" resolutions and considering voting against management where appropriate.

Whilst we believe all ESG factors are important, occasionally there can be conflicts. For example, a firm could have a good "E" score but a poor "G" score. We asked a group of clients and staff to help us decide what we should do where there is such a conflict.

73% of those clients and 61% of our team said that environmental issues should take precedence.

This policy isn't just a piece of paper or a page on a website. We are writing to all fund managers to set out our expectations. We are also monitoring the ESG scores and emissions of all their underlying holdings and will be monitoring their voting record too.

We believe our approach is unique amongst wealth management and financial advice firms. We are still rolling this out to fund managers, but the initial response has been extremely encouraging.

Our stewardship policy reflects our desire to make sure our voices are heard"

Russell Evans, Investment Sales Manager at Royal London Asset Management said:
"Great to see you leading the way… again! This is certainly the first client stewardship policy that I've seen."

Meanwhile Helene Winch, Head of Responsible Investment at Premier Miton, told us:
"I like your approach. It is good to see market players like yourselves making a serious commitment and response in this area."

Exceptions to the rule

Whilst our stewardship policy largely focuses on engagement rather than exclusion, there are some areas where we would not wish to see our capital deployed. We do not wish to invest in controversial weapons such as cluster weapons or land mines on ethical grounds. We also want to avoid investments in companies who breach the United Nations Global Compact – a set of principles governing behaviour such as human rights abuses and child labour.

We also want to steer away from investments in coal mining due to the much higher emissions than other fossil funds. As well as the environmental arguments, we think firms with large exposure to coal mining as unlikely to be good investments!

We will be writing to all fund managers asking that they avoid investments in the above areas and to let us know if they believe they hold any such companies. If they do, we would like to see their justification from both an investment and an ESG perspective. If that is not satisfactory, we won't hesitate to sell the fund.

Net zero?

We're looking into ways that Equilibrium as a firm can be carbon neutral.

We would also love to set a similar target for the portfolios we manage, but at present we do not believe the data available is good enough to do so. The various research providers do not cover every company (especially smaller ones) and some companies have better levels of disclosure than others.

In addition, occasionally there are good reasons why higher emissions can be justified. Our stewardship policy aims to be principle-based rather than a prescriptive set of rules, as we think it is important to consider the bigger picture.

Instead, we will simply seek to minimise the CO_2e emissions within the portfolio and aim to reduce this year on year.

There are various ways we can calculate the emissions in our portfolio. One measure is to take the overall emissions for each company and multiply it by its weight in the portfolio.

Using this methodology, the estimated CO_2e emissions of the FTSE 100 index is around 10.03 million tonnes per year*.

Using the same methodology, the weighted average emissions of our balanced portfolio is around 3.4 million tonnes a year, roughly a third of the FTSE 100.

There are various metrics we can look at, including comparing emissions to revenue (sometimes called carbon intensity) or to market capitalisation. Again, we will consider all relevant data rather than focusing on a single metric which might lead us to exclude higher emitters rather than engage with them.

No matter which way you approach it, we think it is very important to take environmental issues very seriously, for the sake of the planet but also for investment performance.

*Source: Equilibrium Investment Management calculation using Refinitiv data

A gift of green

How two Equilibrium clients helped their children and the planet

After meeting years earlier whilst both working in the Armed Forces, Vince Pearson and Lynda Baxter reconnected in 2007. By this point, each had three children of their own, forming what they refer to as their 'blended family' of six children ranging from age 18 to 36.

Both Vince and Lynda had enjoyed successful careers; Lynda worked as a management consultant and had her own company, whilst Vince worked in contract catering, becoming a board member of a business which sold in 2016.

Vince still works as a non-executive for a hospitality consultancy, giving him more time to enjoy the wealth they have earned, whilst Lynda has discovered her passion for art, successfully selling her pieces.

Although Lynda jokes that their attitude to money can be summed up as 'basically, Vince spends it all', the couple's experience in business armed them with a keen understanding and aptitude for planning. It was important to them that they chose a financial planner that they could trust.

"Neither of us had ever used a company to manage our investments," Lynda explained. "So that was a major mental shift of 'we have to trust these guys.'"

Vince and Lynda visited agencies that were local to them in Norfolk as well as national firms, viewing Equilibrium as a 'dark horse' who they were giving a chance based on a recommendation from a trusted colleague of Vince.

"We were actually blown away by Andy Baker and Equilibrium," Vince recalled. "All of the others followed a similar script of 'this is who we are, this is what we do, we can offer you a bespoke service', but they didn't really give us an awful lot.

"What Andy did was quite different – he assumed we'd been a client of Equilibrium for a year and gave us a presentation which was an update on our investments and tax position. It was all theoretical, but it was just a cut above everyone else."

Lynda explained that they had two priorities when it came to their wealth: "One is security, and the other is our children. We probably did have a financial plan before, but the closer old age comes the more you have to start sharpening the saw. Equilibrium have been very good at working with us and our accountant, not just on our annual financial planning, but looking at what we want to get out of our future life."

One thing that became clear to Vince and Lynda after working with Equilibrium on their financial plan was that they had more than enough money to live the life they wanted – significantly more.

After a review which considered life expectancy and looked at investments pessimistically, they decided that they could tackle their inheritance tax liability by creating a trust for their children. "It was clear that we had more than sufficient for our life plans," Vince said. "We've been reasonably generous throughout the children's lives helping with property and other bits, but it was clear we had surplus wealth we could give away.

"At our age, we're starting to look at climate change and think, 'what's the world going to be like for our grandchildren and their children?' We thought it was worth doing something that would have a positive impact but still get a positive return."

So, Vince and Lynda had a discussion with the investment team at Equilibrium about investing in our Positive Impact Portfolio, including their children in the conversation from the offset.

Equilibrium acted as a personal shopper, finding their perfect fit without them needing to trawl through hundreds of shops and brands"

Lynda felt it was very important to involve them in the discussion: "Over the years we have seen investments as an opportunity to coach our children so, whenever it's been relevant to them, we've included them in the decision making. They're all adults now, and we wanted to give them a voice in the trust.

"One of the great things about Andy and his team is that they've fully embraced that, and some companies might not see that as part of their job, but Andy really did his best to respond individually to any questions they have and have one-to-ones with them where needed. It's really made our life better.

"The challenging part," Lynda laughs, "is that we have children in the UK, Canada, New York and Sydney! But Andy and the team have been very flexible with that."

Vince and Lynda were glad they had a planner in place who they could trust to do the research on the funds so that they could relax, with Lynda describing the process as 'going shopping without knowing what the store sells'. Equilibrium acted as a personal shopper, finding their perfect fit without them needing to trawl through hundreds of shops and brands.

One of Equilibrium's core goals for clients is to help them leave a powerful legacy, and the team was thrilled to have helped Vince and Lynda do this.

"I wouldn't want my legacy to be some fancy statue – although perhaps Lynda could create one as she's an artist!" Vince joked. "All I'd like is to create fun memories for the children to look back on, so that years from now, they will sit around the table and reminisce about us."

COP26

Royal London Asset Management's Simonetta Spavieri explains what to expect from the historic climate change conference

By the time this magazine lands on your doorstep or in your email inbox, the 26th annual United Nations Climate Conference will already be half way through, taking place in Glasgow, Scotland, between 31 October and 12 November 2021.

Simonetta Spavieri, Engagement Analyst at Royal London Asset Management (RLAM), outlines below what they expect to see from the conference. For up-to-date commentary on the conference as it happens, visit: www.equilibrium.co.uk/COP26

One thing to look out for at COP26 is the "just transition" agenda, which aims to support the shift to a sustainable and greener future in business and politics. Justice at climate negotiations has been framed in various ways, from intergenerational justice to historic responsibilities.

With energy prices now soaring globally due to a range of factors (for example, heightened demand for gas and even geopolitical factors), the potential harmful impact on vulnerable consumers highlights the importance of accelerating the transition to a robust renewable grid less dependent on fossil fuels. A positive outcome this November at Glasgow would be for nations to ratify their commitment to making net zero (you can read more about 'net zero' on page 22) socially inclusive.

With social impact close to our purpose, RLAM has been a key advocate for incorporating just transition into climate action. We have been vocal and effective in our engagement with energy utilities, with six of our seven targeted companies incorporating just transition in their climate plans.

One of the few positives to take from the complex problem of climate change is that it is inherently solvable from a technological perspective. According to the International Energy Agency, the technologies currently in the market take us half of the way to staying below a 1.5C temperature rise, whilst technologies under development that we know to be technically feasible take us the other half.

If the problem is not mostly technical, what is it? Reducing emissions to net zero is a complex political and socio-economic issue. The level of transformation and pace required needs a fundamental shift in incentives and means change will be disruptive. Unless justice is embedded in the way climate action takes place, from government policy to corporate action, we won't have the societal buy-in required for fast pace change and we may end up creating new injustices.

Find out more

To read Equilibrium's up-to-date commentary on the conference as it happens, visit: **www.equilibrium.co.uk/COP26**

E, S or G?

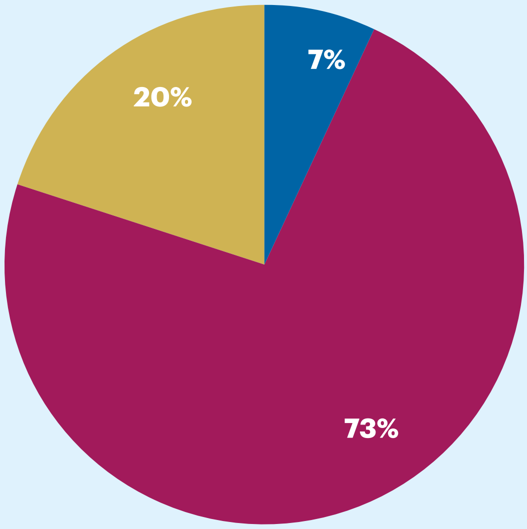
When it comes to ESG investing, how do you make sure you’re on the right path? Hear what Equilibrium’s first client focus group had to say

You may have noticed that this issue of Equinox follows a theme of environmental, social and governance (ESG) investing.

This issue explores many of our commitments to ESG, including our Positive Impact Portfolio, which was created with the aim of having a (surprise, surprise) “positive impact” on the world whilst still providing returns for those who to choose to invest in it. At Equilibrium, we believe that companies who incorporate environmental, social and governance (ESG) factors are likely to perform well.

We often say that our purpose of “making people’s lives better” applies to our clients, our employees and our community. With that said, however, we would not want to satisfy one of those areas at the expense of another, and therefore it is very important to us that we consider client opinions when making decisions on ESG.

Chart one: How important is it that we take ESG factors into account?



- Not important
- Important, but secondary to risk
- Of equal importance to risk and return
- Even more important than risk and return

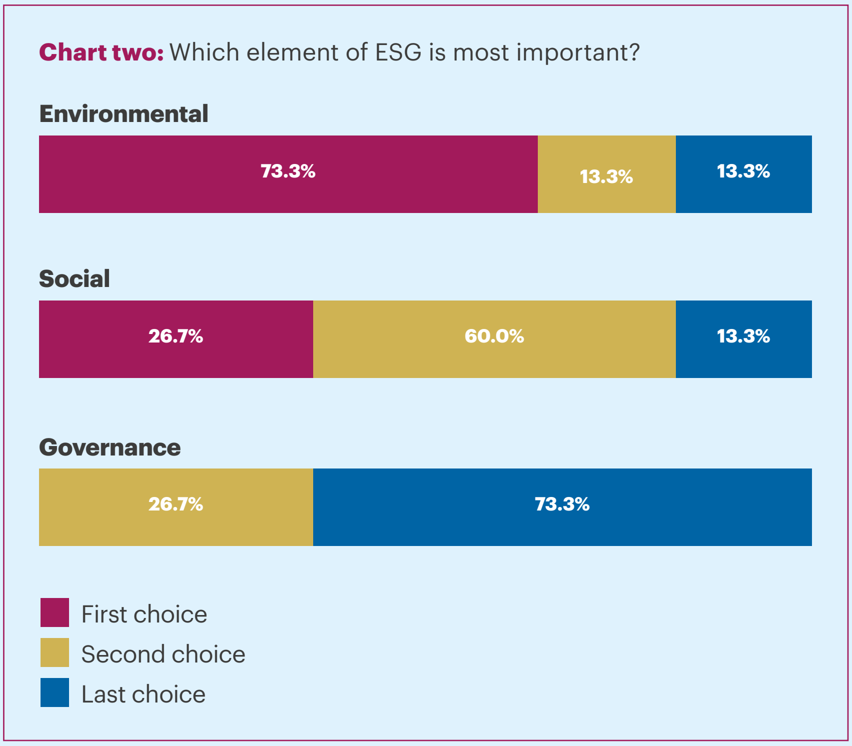
You may have read about our 'client advisory board' in the spring 2020 edition of Equinox: "The goal is to help us appreciate and fully understand what we must do in order to meet the needs and expectations of our clients. This, in turn, will steer our business and strategic direction going forwards." Debbie Jukes, Head of Client Care, explained.

These sessions have worked so well that we decided to start holding focus groups on specific topics and actions. So, who better to consult about what action our clients would like to see us taking regarding ESG than the clients themselves?

Firstly, we wanted to assess how important ESG factors were to clients compared to risk and return. When asked 'How important is it that we take ESG criteria into account?', 73% stated that ESG factors were of equal importance to risk and return, as seen in chart one (although this sample may not represent the view of all clients).

One client even commented that, although he is happy with the service of Equilibrium, if we had not put an ESG policy in place, it may have prompted him to consider moving elsewhere. But, of course, ESG is a multi-faceted topic. Even the term

> **"Businesses are in a privileged position to drive change in the world"**



itself advocates different areas of change – environmental, social and governance. Whilst all of these areas are important when choosing investments, we wanted to understand which are the most significant in our clients' eyes. As seen in chart two, environmental factors were the top choice for more than 73% of those surveyed. This view was nicely summed up by one of our clients who explained: "You have to make sure the environment is okay. Otherwise we have nothing left to give to our grandchildren." Speaking to our focus group was an excellent exercise and shone valuable light on what areas we should be focusing on. We will continue to consult our clients on the topic and adapt our approach where needed.

As well as improving our service offering, an added bonus of our commitment to ESG is that it attracts the best talent to work for our company and therefore our clients. Kelly Eyton-Jones, Culture Assistant at Equilibrium, explains: "I want to contribute to a company that's making a positive difference to the world. Equilibrium's commitment to ESG makes me proud to work for them."

Businesses are in a privileged position to drive change in the world. At Equilibrium, we are committed to providing our clients with the best possible service as well as being the best business we can, acting in a responsible manner and having a positive impact on the world.

" Equilibrium's commitment to ESG makes me proud to work for them "

Get your kids invested in investing

Why you need to talk about money – and how to get your kids to listen!

When it comes to investing, your two biggest allies are time and good habits. The sooner you start, the more time you give your investments to grow and the larger your nest egg is likely to become.

The above concept isn't particularly inflammatory or revolutionary. However, the trouble is that most people aren't taught the concept of investing until their mid-20s when they get their first job and are enrolled in an employer pension scheme. Even then, auto-enrolment and default investment options mean there's a good chance younger generations aren't building the foundations of their investment knowledge until a much later date.

Since finance and investing is not typically taught in schools, it's up to parents and grandparents to help children and grandchildren learn the basics. Knowledge is power, and a good financial education could be the most valuable gift you leave for future generations.

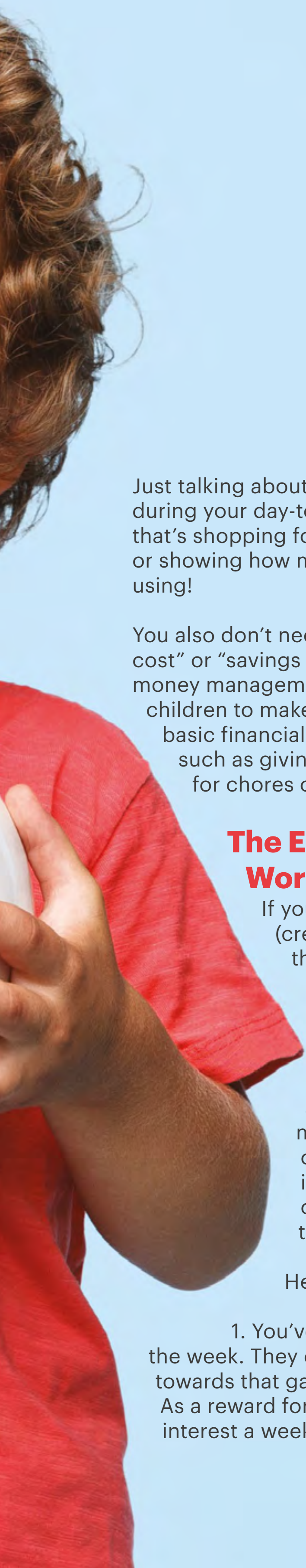
The younger generation is increasingly aware of climate change issues and eager to work towards a better future for all. Perhaps the key to getting children engaged in finance is to explain how investing can have a positive impact on the world.

Let's take a look at some of the ways you can start the conversation around money without overwhelming or disenfranchising them.

Talk about money!

As Brits, there are a few topics that are considered to be off limits at the dinner table: politics, religion, sex and money. Well, it's safe to say Brexit brought politics around the dinner tables and I'll leave religion and sex to your discretion. But, in my view, money needs to be put back on the table.

> **Every time we spend or invest money, we support one version of the future or another"**



Just talking about money whenever it's relevant during your day-to-day lives is invaluable. Whether that's shopping for deals, paying the credit card bill or showing how much electricity the Xbox is actually using!

You also don't need to use terms like "opportunity cost" or "savings ratios" to begin instilling good money management skills. Simply encouraging children to make financial decisions can introduce basic financial concepts like saving and spending, such as giving them an allowance or paying them for chores or small jobs.

The Eighth Wonder of the World

If you're not a fan of Albert Einstein (credited with the heading above), there are plenty of alternative quotes or expressions that can be used to start a conversation around the power of compound interest.

The power of compounding is at the heart of how investors make money but it's a hard concept to comprehend when you're young. An interesting exercise is to help your children come up with some long-term (in relative terms) goals.

Here's how it works:

1. You've given them £3 pocket money for the week. They can spend it all now or can save it towards that game they really want that costs £15. As a reward for saving it, you'll give them a 5% interest a week. They decide to save half.

2. After two months, they'll have saved £12 of their pocket money. But, thanks to the power of compound interest they can trot off to buy their £15 game.

Bearing in mind that "long term" for a child is potentially going to be a few months to a year, it allows you an opportunity to show the power of compounding in action.

Introducing investments

Once kids have a handle on basic money management, it's probably a good time to introduce the basics of investing. But explaining that a stock or share allows them to have ownership in a company is best done with companies they know.

Whilst toys or the latest fad may be a good way to go at younger ages, for older children and teenagers, the answer may lie in environmental, social and governance (ESG) investing.

Children, and particularly teenagers, are becoming increasingly aware of the climate crisis that will define their futures – perhaps more so than their seniors. Whilst activities like recycling can be a brilliant way to engage children with environmental issues, the impact of investments is also a great topic to spark their interest.

In his book How Bad are Bananas, Mike Berners-Lee says, *"every time we spend or invest money, we support one version of the future or another."*

Investing is all about allocating capital and discussing ESG investments can show younger people how their money can have a positive impact on the world they grow up into.

ESG for SMEs

As the effects of climate change become impossible to ignore, businesses must become sustainable. Zellar, the sustainability experts, explain how to do this

Small and medium enterprises make up 99.9% of all businesses in the UK, meaning they hold the power to reduce emissions and make a difference. Plus, large corporations such as Unilever, Apple and Microsoft are reducing carbon emissions along their supply chain, which directly impacts many smaller businesses who need to become part of the sustainable procurement cycle.

The pressure is on, but becoming sustainable is good for your business – with customers happy to pay a premium price for a product or service that has been produced ethically. So, becoming more sustainable is great for our planet AND great for your business, but where do you start?

We know small businesses don't always have the resources to develop a detailed climate plan – that's why we're here to break down the jargon and kick off your journey to becoming sustainable.

Here are our nine top tips to becoming more sustainable.

1. Benchmark your carbon emissions

We're often told to not compare ourselves to others, but when it comes to sustainability, comparison is key! When starting your mission to become eco-friendlier, you need to look at where you stand amongst businesses in your industry and your community.

Business is, by its nature, competitive, and by benchmarking your brand against others, you can ensure you don't lose your competitive edge.

2. Sustainable behavioural change

A business is made up of hundreds (even thousands!) of tiny processes. Each of these processes has an individual carbon footprint that adds up to your grand total. Becoming sustainable is about making small, smart, eco-conscious changes to bring your overall total down, for example: reducing travel emissions; switching to energy efficient lightbulbs; recycling; only printing when essential; optimising heat and water and many more.

3. Transition to greener suppliers

Aim to work with suppliers who have clear sustainable values and treat being green as part of their mission. Look at how they're working to be ecofriendlier, from using green energy (e.g. electric cars rather than petrol powered vehicles) to creating plastic free products using biodegradable or recyclable materials. If you are unsure of the sustainability policy of a supplier, make sure you get in touch with them to find out or make the switch to a supplier who is more transparent.

4. Green tech to protect the planet

Green technology refers to environmentally friendly technology which reduces our negative impact on our planet. Green technologies use less power than conventional or older products and are a far better option for businesses wanting to become more sustainable, save energy and lower their carbon emissions.

Energy is one of the highest single cost items in most business but managed properly it can also be one of the easiest ways to reduce both consumption and carbon emissions. By using green technologies, businesses can not only lower their carbon footprint but also their bills by minimising energy use and creating a more efficient business.

" becoming more sustainable is great for our planet AND great for your business"

5. Support local carbon and biodiversity offsetting

Even with a lot of sustainable changes, your business may still struggle to become entirely green. This is where carbon offsetting comes in. By buying into carbon offset initiatives, you can write off the remaining emissions on your sustainability score. If you choose a local offset initiative you can reduce the carbon footprint of your local area, helping to educate people, put systems in place to reduce the use of fossil fuels, and reverse the damage already done.

6. Start volunteering

Volunteering is about donating time or skills willingly to a good cause and incorporating volunteering days into your business is a great way to benefit your community, enhance team communications, learn and develop new skills, improve employee satisfaction and more.

Environmental volunteering focuses on activities which seek to preserve and protect our planet as well as creating spaces for us to enjoy our landscapes.

7. Promote your green sustainable credentials

Climate change and sustainability are increasingly important to consumers and your community. List your company on Zellar's directory for sustainable businesses and let others know that you're committed to eco-conscious values.

The directory shows consumers which businesses are working towards sustainability, helping them make informed choices about where they spend their money. We automatically update business profiles that are listed on the directory as your sustainability journey progresses and you can promote your stories on your social media profiles, including Twitter and Facebook. By adding your business to the directory, you achieve transparency in the simplest way!

8. Share your responsibility journey

If you are building a more sustainable business, you need to start marketing yourself as one. Marketing is an essential aspect of every business's success and the best way of getting your name out there as a sustainability leader.

Marketing your plan will have a wealth of benefits, including improving your brand image and attracting more potential employees, giving you the pick of the best talent.

9. Become a sustainable business the simple way

A lot of SMEs feel overwhelmed at the thought of overhauling their business to become a sustainable brand. Being sustainable is a must, but being stressed definitely isn't! Luckily it doesn't have to be complicated. Visit www.zellar.com now to gain access to free guides, videos and a carbon calculator to benchmark your emissions.

Journey to the future

Are electric cars the future of travel in the UK?

Electric cars may seem like a new phenomenon, but they have actually been around for a very long time. In fact, the first electric vehicles (EVs) appeared in the mid 19th century and electric vehicles even held the world land speed record until 1902. This is just one of many misconceptions about electric cars. But if they're not new, are they really greener than the internal combustion engine? The short answer is yes. Usually. But as always, things aren't quite that simple. When you drive an electric vehicle (EV), you are not emitting nasty stuff out of the exhaust pipe in the way you do with a petrol or diesel engine.

But the manufacturing of an EV typically results in MORE emissions than for a petrol or diesel car, perhaps as much as 60% higher according to a study based on manufacturing in China (although it may be less in other countries).

There is therefore a "break-even point" for each vehicle, where the carbon dioxide "savings" from the lower emissions are greater than that produced in the manufacturing process. These higher emissions are partly because of the rare metals and minerals required to make an EV battery. This requires lithium, predominantly from Chile and Australia, and cobalt, largely coming from the Democratic Republic of the Congo. Mining such minerals produces a lot of CO2.

There have also been question marks about safety and the social impact of some of this mining. Car manufacturers have a responsibility to make sure they choose their suppliers carefully.

The break-even point depends on the individual car, how much you drive it, and what is the source of the electricity. A large heavy EV, only driven rarely, charged from coal-produced electricity (as is often the case in China), would not necessarily be any better than a petrol car.

Hearteningly, here in the UK around 40% of our electricity came from renewable sources in 2020. According to a 2021 study by the International Council on Clean Transport, based on the average European EV driver the total emissions for electric cars are somewhere in the region of 66%-69% less than a petrol car.

So EVs are usually greener than petrol or diesel over the life of the car, but it pays to do your own research before committing your cash. For larger vehicles and other forms of transport such as aeroplanes or shipping, the weight of a battery is more of an issue. Here, it seems likely that hydrogen could be the fuel of choice. Meanwhile, Toyota is still aiming to produce hydrogen fuel cell cars.

Electric and hydrogen powered cars will be a useful weapon in the fight against climate change. However, they can only be a small part of the solution, and their usefulness also depends on us having reliable, green electricity production.

BY ANDREW EVANS

Making a positive difference

As we edge closer to the end of 2021 and the festive season looms, this time of year often brings about some reflection on our lives. As a philanthropy adviser, I also find it's a time of year when people are rethinking their charitable giving

So, if you're on the fence or not quite sure where to start, here are my top four reasons for thinking about philanthropy as part of your financial planning.

1 You can make a real difference

The UK's charity sector is a real jewel in our nation's crown. With a robust regulator in the Charity Commission, you can be confident that if you give to a registered charity the money will be used well and will make a real difference in your chosen sphere – whether that's researching cures for cancer, preserving beautiful buildings, feeding hungry kids or providing people with a world-class education.

2 It's good for you!

It turns out money can buy you happiness – if you give it to others! An increasing body of evidence, including a study by Harvard Business Professor Michael Norton, shows that giving to others significantly improves psychological wellbeing. Other research shows that regular volunteering was associated with a 44% decrease in deaths from all causes for older people.

3 You can't take it with you

Lots of people want to leave charitable legacies in their will – and that's a great thing to do! But I often advise clients that if you have money you are planning to give away, it's better to experience the joy of making a difference now rather than waiting until after you've gone.

4 Giving brings people together

Charitable giving is a great way to do something as a family and involve your children. Finding out about the issues they are passionate about and then working together as a family to support causes can really bring you together.

Find out more

Andrew Evans is a Philanthropy Adviser who works with Equilibrium clients to help them think about their giving. Andrew would be delighted to have a phone call or a coffee with you if you'd like advice on any aspect of leaving a legacy. Get in touch at askus@equilibrium.co.uk or with your regular Equilibrium contact.

BY MIKE DEVERELL

A positive impact

How your wealth can make the world a better place

What's the expected return of a tree?

According to a recent research note from Credit Suisse, the answer could be somewhere between 11.4% and 16.9% per annum.

Planting a tree has a positive impact on the planet as trees soak up carbon dioxide (CO_2). If Credit Suisse is right, then owning a tree could also have a positive effect on our investment portfolios!

This is the theory behind our new Positive Impact Portfolio. Companies which can help in the fight against climate change, for example, are likely to prove successful investments. Governments are incentivising investments in these areas, whilst demand for environmentally friendly products is skyrocketing.

Meanwhile, taxation and legislation will be adapted to punish the biggest emitters and provide incentives to those with more positive behaviour.

Which brings us back to trees.

The most obvious way to make a return from trees is by selling the wood. Done sustainably (replacing cut-down trees with new ones), it can also help the environment by providing sustainable building materials. Using more wood in buildings rather than steel and concrete is another way we can reduce CO_2 emissions.

But trees can also be another source of return, as it is possible to sell carbon credits to companies who need to offset their emissions.

We expect this market to increase substantially over the next few years and will likely be combined with carbon taxes. The higher the price of carbon, the bigger the incentive for firms to reduce emissions and the higher the potential return for carbon-negative activities like tree-planting!

Credit Suisse's calculations for the return of a tree depend on different assumptions for carbon, with the lower figure based on $50 per tonne – roughly the current price in European markets.

Sustainable development goals

The carbon credit market is still in its infancy and suitable forestry funds are - as yet - few and far between. However, both are investments we are already considering for the future.

"owning a tree could also have a positive effect on our investment portfolios"

In the meantime, there are other industries which we think can make both a positive impact and an attractive return.

The Positive Impact Portfolio invests in stocks which we believe can help towards achieving the 17 United Nations' Sustainable Development Goals (SDGs).

The sorts of companies that make a difference can be the more obvious ones such as those who provide clean energy or water, but they can also be less obvious.

For example, one company in the portfolio specialises in natural gas infrastructure in Asia. Gas is a fossil fuel and, of course, that means CO2 emissions, but what the firm is really doing is enabling countries in Asia to reduce their reliance on coal. It would be great if they could switch to renewables – but switching to gas as an intermediate step still means less CO2 is emitted than would otherwise be the case.

At present we only invest in funds which themselves have an objective aligned to the SDGs. These funds tend to be largely equity and are relatively concentrated, so the portfolio can be risky.

The portfolio is currently run on a discretionary basis but in future we intend to launch it as a fund. We believe a fund structure will allow us to take the portfolio to the next level, helping us make an even bigger impact and increasing the possible returns.

It would allow us to participate in the funding of projects at an earlier stage. We would be able to participate in initial public offerings or placings for new companies and investment trusts who are investing in private (unlisted) impact projects.

There are several such "impact trusts" in the planning stages and we again expect this to be a growing area. Whilst these come with greater risk, they can also have a greater impact than us simply buying shares in companies that have already listed.

This is because when we buy shares on the secondary market we are effectively giving our money to another party in exchange for their shares. By participating in primary placements, our funds go straight into the companies' treasury where they can use them to make a direct impact.

We believe impact investing is the next evolution from merely considering ESG factors when investing, to taking action to contribute to positive change.

Zero, zilch, nada

Why every business needs to become zero carbon – and how to get there

The importance of reducing carbon emissions and taking climate action is headline news that no business can ignore. But, understanding how to reach net zero and reduce emissions to stay ahead of the curve and reach government targets can seem difficult. Help is needed to enable companies to reduce emissions, simplify the process and tackle any excuses for inaction.

That's why Zellar are on a mission to make 'sustainability simple', providing everything you need to take climate action to reach net zero in one place, making it easier for businesses by removing the common barriers to sustainability and giving you the insights you need to make your business greener.

What is zero carbon?

When emissions are produced and released into the air they create a barrier, trapping heat in our atmosphere and causing our planet to warm up. Human activities such as burning fossil fuels and farming are huge

"by implementing a sustainability strategy you will help your business in the short and long term"

contributors to the increase of greenhouse gases emitted. Zero carbon means there are no carbon emissions created by a product, service or organisation. Renewable energy sources such as wind and solar are zero carbon as their usage produces no carbon emissions.

What is net zero?

In 2019, the UK became the first major economy to set the target of net zero emissions by 2050. Net zero means creating a balance between what you put into the atmosphere and what you take out. Achieving net zero requires a business to understand what their emissions are, reduce them as much as possible and offset the rest, by investing in a project which removes the remaining emissions such as tree planting.

What is the difference between zero carbon and net zero?

There are multiple differences between zero carbon and net zero. Firstly, zero carbon is focused solely on carbon emissions and no other greenhouse gases. Secondly, zero carbon is about creating no carbon emissions at all, whereas net zero concentrates on reducing emissions but allows for those that cannot be minimised to be offset.

How can my business become more sustainable?

Setting yourself targets is a fantastic way to start your business's sustainability journey. Becoming a greener business is not going to happen overnight, however, by implementing a sustainability strategy you will help your business in the short and long term. You firstly need to understand how sustainable you are – this will highlight where you can make your business more efficient, saving time, money and the planet.

What is your business carbon footprint?

One of the first things you need to know to reduce emissions to zero is what your current carbon footprint is and how this compares with your industry, so you can reduce it and take action. Zellar provides you with this benchmark data with the leading SME carbon calculator.

Equilibrium in a founding supporter of Zellar and is working alongside them on their own sustainability policies.

Find out more

Zellar is the world's first sustainability platform for SMEs, helping them to reach net zero sooner. Zellar will provide businesses with everything they need all in one place, with prices starting from just £125 a year. Becoming sustainable just got a whole lot simpler.

Visit **www.zellar.com** to find out more and start your business's journey to a greener future.

Planetary boundaries

In August, the Intergovernmental Panel on Climate Change released its sixth assessment report on the state of our climate – it came with a stark warning

Many children are brought up with a teaching of boundaries, the more rebellious readers may be familiar with pushing back on them. The adventurous enjoy the challenges of pushing the boundaries, however in our society, which enjoys growth and prosperity, boundaries are seen as unwanted obstacles to overcome.

Some boundaries are impressive to behold and yet others may be so transparent and slow moving their magnitude is only made visible when we take a stride too far. I refer here to the boundaries of our world. Not the reach into space or the ocean depths below, but the equilibrium between our sustainable existence and conditions the planet can support.

It has been the work of Swedish professor Johan Rockström and his team at the Stockholm Resilience Centre to uncover where these planetary boundaries lie and to evaluate their current state.

They have identified nine factors relating to our sustainable existence, from the acidification of our oceans to atmospheric aerosol levels, and analysed the current state of the factors in relation to their impact on our world.

These impacts are binary.

We are either living within the sustainable boundaries, demonstrated by the green segments within the bold dotted line in the infographic below, or we are not. In circumstances where we breach these boundaries we enter a zone of uncertainty.

Zones of uncertainty, depicted in yellow, are the danger zone where we risk destabilising the ecosystems we depend on. Orange-coloured zones beyond uncertainty identify levels with increasing frequency of high-risk adverse conditions to human survival.

Some boundaries are yet to be determined. However, research clearly shows human activities have changed the fundamental nature of our ecosystems.

This is not simply an academic quandary. The repercussions have been felt this year by those who had to evade wildfires in Greece and clean the rubble from their homes in Germany after record-breaking floods.

Equally distressing are reports the Amazon is no longer a carbon sink.

The "lungs of the world" are failing.

That sentence should scare us.

So severe now is our impact on the planet that some geologists are suggesting we have moved into a new geological epoch. No longer the nourishing conditions of the Holocene in which humanity flourished.

"The lungs of the world are failing"

Now is the age of the Anthropocene, where humans are responsible for the changing conditions of our world.

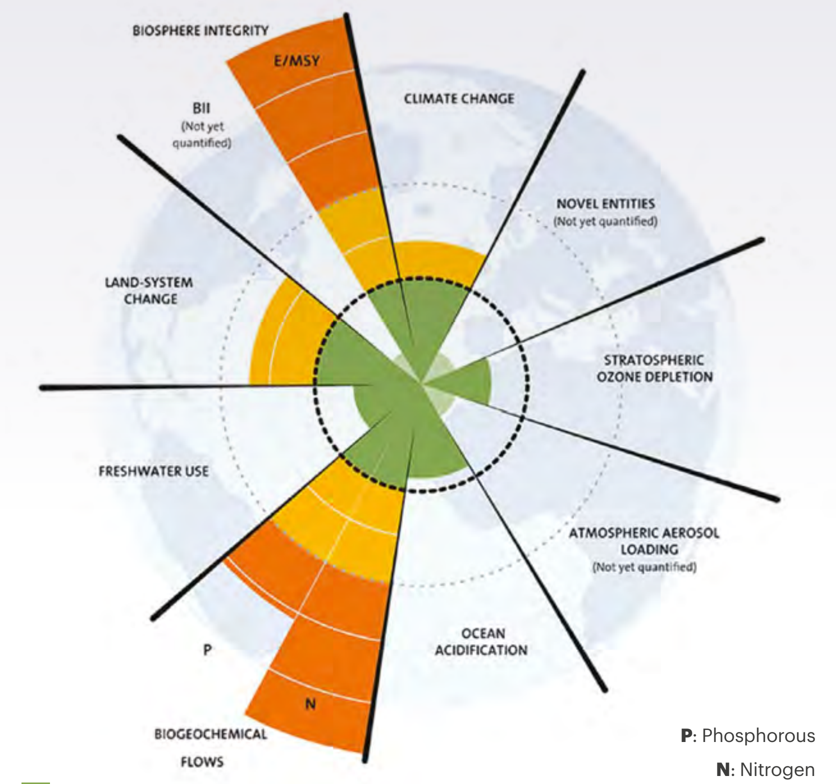
There is hope, however. In 1987, governments came together to stop the production and import of ozone depleting substances such as CFCs and HFCs, in an agreement known as the Montreal Protocol. The initiative was in response to a growing gap in our ozone layer.

This call to action was successful, the gap shrunk and, indeed, disappeared altogether in January of this year, proving that positive action can pull us back from destabilising the planet.

There are limitations to the stresses these systems can bear.

We must start to account for the implications of our actions in all aspects of our lives. The science behind the consequences of human behaviour is continuously evolving but, with the scale of the changes we must make, we can't afford to wait for it to be perfect before we take action.

That is one of the many reasons why Equilibrium has designed a Positive Impact Portfolio, so that purposeful capital may be deployed to support the positive changes to our planet and its people, but also benefit from the opportunities this presents for new and growing businesses that are at the forefront of this long and enduring wave of change.



Below boundary (safe)
In zone of uncertainty (increasing risk)
Beyond zone if uncertainty (high risk)

P: Phosphorous
N: Nitrogen
E/MSY: Species extinction rate
BII: Biodiversity Intactness Index
Source: Stockholm Resilience Centre

Find out more

If you wish to find out more, get in touch with us on **0808 156 1176** or at **askus@equilibrium.co.uk** and one of our friendly experts will be happy to help.

Bubble trouble?

Beware of "the hype"

Remember December 1999? After a couple of years of very large investor inflows into technology, media and telecoms companies, the 'tech bubble' ended in frenzied speculation followed by a crash.

Whilst we have not had the frenzy (yet?), the massive surge of investors' money into ESG-related investments means that a large measure of caution is required.

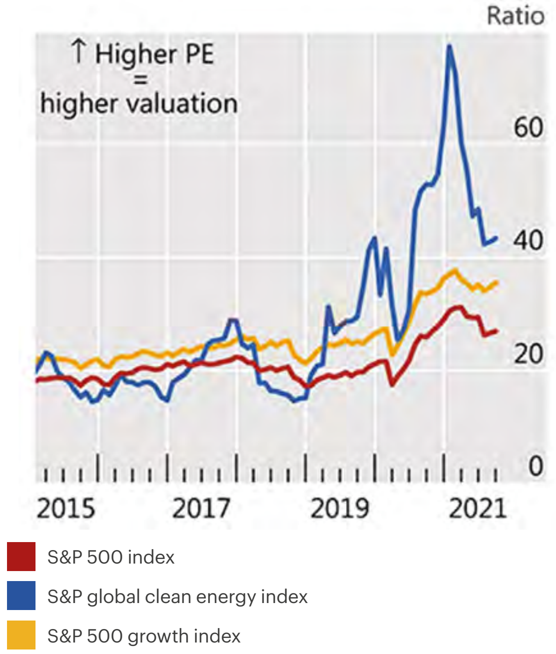
In July of this year, 90% of all equity investments went into ESG funds with Calastone, the research company, calling it a "gold rush". The pool of assets under management with an ESG mandate is expected to rise to $50tn by 2025, from $35tn last year, according to a survey by Bloomberg Intelligence.

We completely agree that there is urgency in solving problems such as climate change but in asset markets this force of money has consequences in terms of pushing prices higher. We are not saying that all ESG stock valuations are in bubble territory, but some are definitely overvalued.

As this money has flooded in, it has tended to be concentrated in a relatively small number of stocks which ESG funds feel safe to buy.

A good example is the darling of the ESG funds, Ecolab. Ecolab is a good company that sells water management solutions to a wide array of industries and is expected to grow earnings by around the same level as the wider equity market over the long term. Yet it trades on more than twice the market's valuation.

Chart one



We are not alone with these concerns.

The highly regarded Bank of International Settlements (BIS) in September wrote, "Assets related to fundamental economic and social changes tend to undergo large price corrections after an initial investment boom... given the very fast growth of the new asset class, there are questions about the possibility that a bubble might develop unless market transparency can be ensured."

They cite the example of the global clean energy index which even after their decline from a peak earlier this year, "are still well above those of already richly valued growth stocks".

In chart one, the global clean energy index is the blue line which remains well above the valuation of growth stocks, shown as the orange line, which are themselves at a premium valuation to the broader US market, the red line.

Part of the issue for many ESG funds is that they opt to invest heavily in just a few sectors, notably technology stocks. Refinitiv, the data provider, calculates that ESG funds, on average, have just under 30% of the funds in technology compared to around a quarter for the market.

Whilst we agree that technology is part of the solution to ESG issues, we are concerned that these highly valued stocks are being added blindly because they are new and relatively 'clean'. We would contend that buying some Apple or Facebook shares is not going to move the needle in solving the climate change challenges the planet faces.

When looking at ESG investing, therefore, we need to keep our eyes open to the valuations but also ensure they are fulfilling the ESG goals, not just defaulting to the easy solutions. We believe the answers lie in looking beyond the obvious and loved stocks and looking at a broader universe of investments that can deliver the results we all want.

BY JOE SMITH

Green washing

Why we mustn't get complacent

BP no longer describes itself as an oil company.

Once named "British Petroleum", the company now chooses to identify as an energy company. Recent television adverts show offshore wind turbines and solar panels, yet the majority of revenues generated still come from its traditional fossil fuel income streams.

These marketing tactics have piggy backed the global sustainability movement. Some describe this practice as "green washing".

The company has indeed attempted to diversify its energy mix. However, rather than increase the total amount of renewable energy generated, they have instead opted to simply purchase these turbines from others. Often this has been at a lofty premium compared to the return on invested capital it experiences in other parts of its business.

The danger here is that we become complacent, thinking that enough is being done when the supply of clean energy has not increased, simply changed ownership.

The development of sustainability linked bonds, where coupon payments decrease if certain criteria are met and verified, or increase if not, has been a key innovation in the greening of finance. Similarly use of proceeds bonds, where covenants stipulate the exact use of the capital provided for green projects is another way investors can help in the climate fight.

You may be surprised to learn then that there is no regulation in what can be labelled a "green bond" and companies have been taking advantage of this to access lower costs of capital.

Green washing is not only a corporate phenomenon. We have seen governments also deploy these tactics. Dig a little deeper and you will find that some of the "protected" waters off the British coast seek little more than to ban the practice of sea kayaking in the region – but if you are seeking underpopulated fish stocks or new oil and gas reserves then please, go right ahead.

Thankfully, governments and institutions have recognised this as an increasing issue. Recently the FCA acknowledged the amount of UK listed funds filing to rename themselves as "sustainable" with little change to the investment process. On the continent, the European Union has this year, enacted the Sustainable Finance Disclosure Regulation (SFDR) legislation to tackle green washing issues.

We must, however, be careful not to cause one problem by trying to fix another. The objectives of the SFDR and its focus on the UN Sustainable Development Goals (SDGs) are commendable but investors must be wary that we do not stray into "impact-washing".

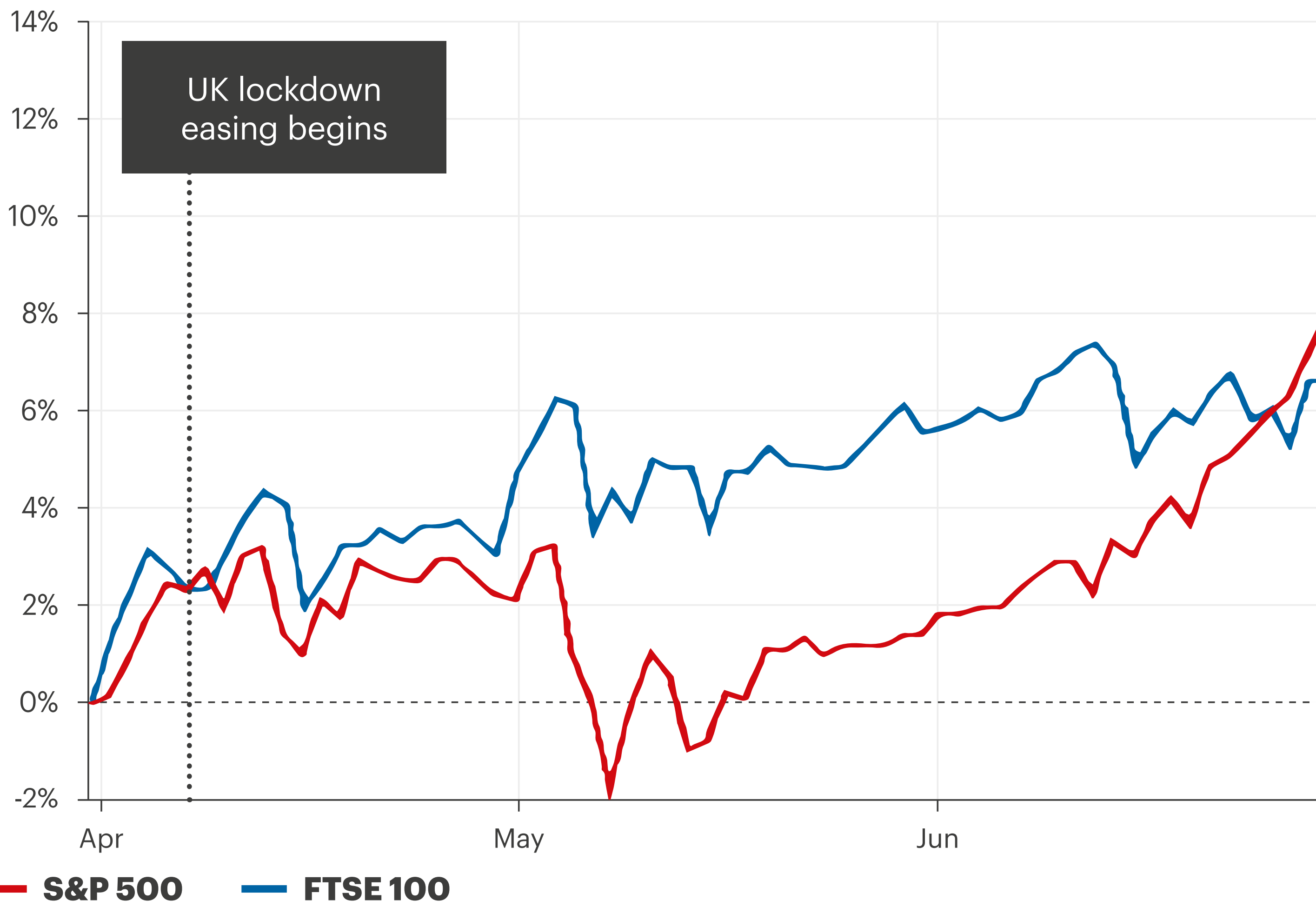
Just because we can now map a fund's holdings to the sustainable development goals does not mean that capital is invested with the **intent** of furthering these goals. It is a nuanced but crucial distinction.

INVESTMENT REVIEW

The road to recovery: a balancing act

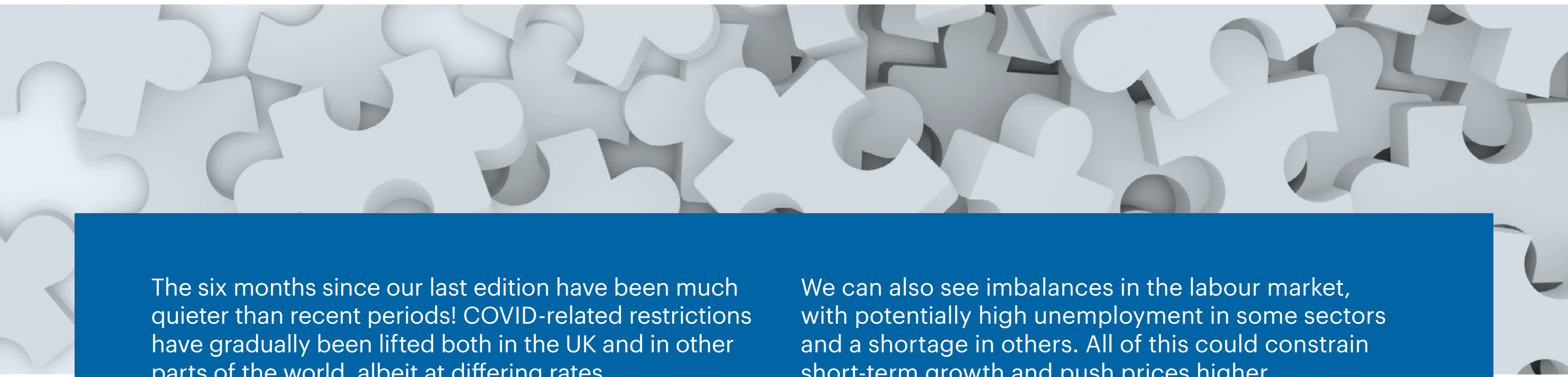
Welcome to the investment review section of this edition of Equinox

Mike Deverell
PARTNER & INVESTMENT MANAGER



30 **Summary**
Let's take a look back over the last six months and explain the actions Equilibrium has taken.

32 **Asset class outlook**
Here we evaluate each asset class and explain their role in our investment strategy.



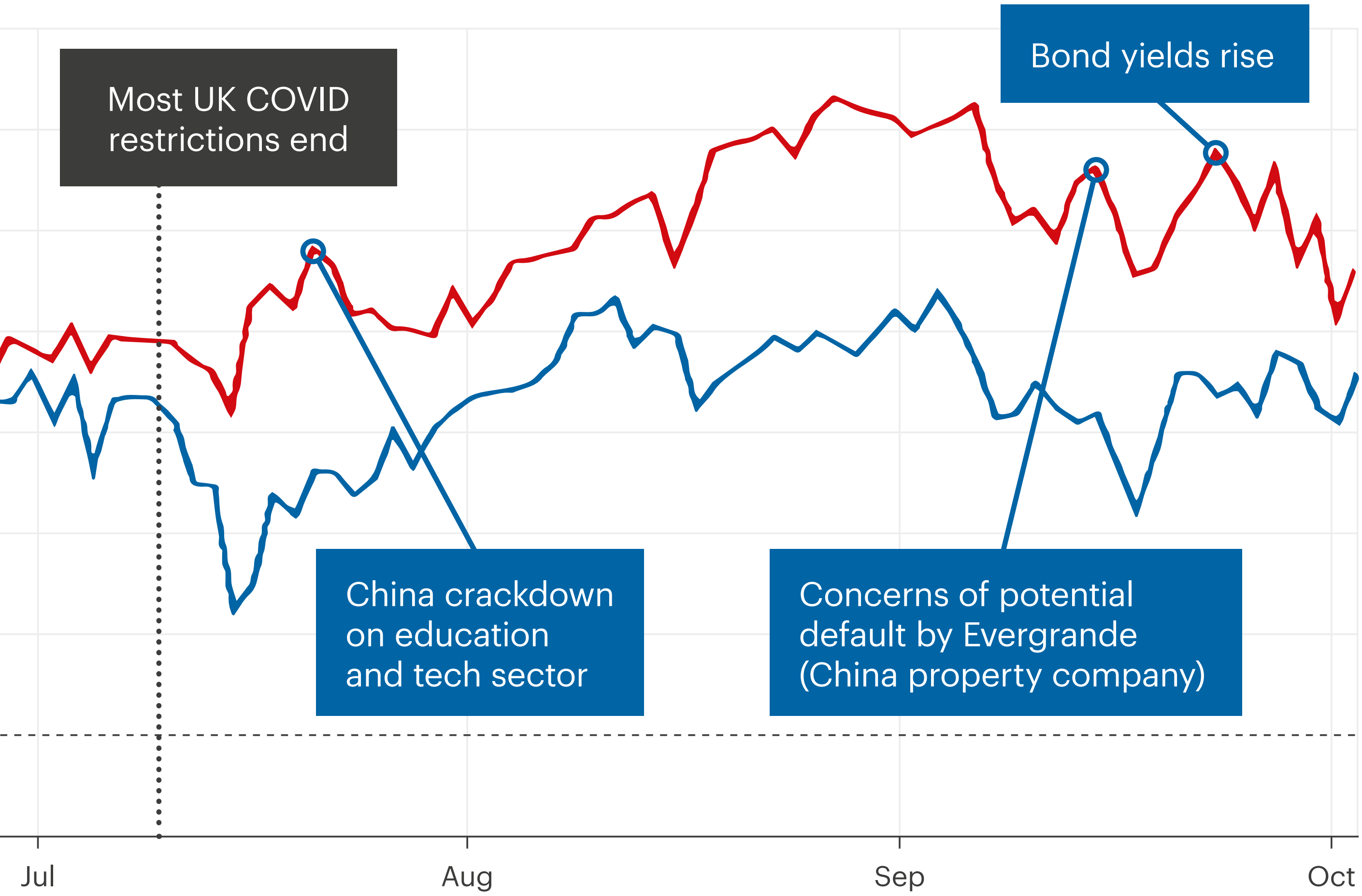
The six months since our last edition have been much quieter than recent periods! COVID-related restrictions have gradually been lifted both in the UK and in other parts of the world, albeit at differing rates.

Politically, we've seen elections in Japan and Germany which may have some impact on their local markets but not too much globally. Central banks have started to talk about removing stimulus but have not yet done so.

But pandemic related issues remain. In economic terms, we've seen a recovery in demand, but supply of goods and services is struggling to keep up.

We can also see imbalances in the labour market, with potentially high unemployment in some sectors and a shortage in others. All of this could constrain short-term growth and push prices higher.

Over the following pages, we'll consider which issues are simply caused by temporary bottlenecks, and which are part of a longer-term trend. And, of course, we'll explain how we're positioning portfolios as a result.



Source: FE fundinfo 2021 / Equilibrium Investment team. Data from 5 April 2021 to 5 October 2021.

36 **Performance & sector analysis**
After a turbulent few months in markets, here we look at how our selected funds have performed compared to their relative sectors.

39 **Portfolio performance**
Here you can find a thorough breakdown of how each portfolio has performed in both the long and short term.

Over the six months since the last Equinox, we've seen positive returns from all our strategies.

Table one shows the returns of the various IFSL Equilibrium funds compared to the average fund in the sector.

Markets have been relatively quiet and as economies re-open, they have generally moved higher in a relatively unspectacular fashion. However, as we will see shortly, there are plenty of stresses and strains underneath as well as more volatility as we reached the end of the period.

There have also been several periods of "rotation" within markets, as investors try to assess the long-term effects of the pandemic and the recovery.

The i-word...

Markets have recently been driven by the dreaded i-word: **inflation**.

In fact, by several i-words. The inflation is caused partly by **imbalances** in the global economy.

The possible knock-on effect would be on **interest rates**, if central banks feel the need to act against inflationary forces by hiking rates or tapering quantitative easing.

Let's look at the imbalances first.

Manufacturing of goods and supplying them to the right places takes time. Something we buy in the shops today may have been assembled on the other side of the world many months ago, perhaps spending weeks on a container ship.

There is therefore often a significant time delay built into supply chains. As a result, even where coronavirus restrictions were eased several months ago, the effects may still be being felt today. One of the largest ports in China was closed until recently, for example. The Suez Canal closure earlier this year has added to bottlenecks.

Meanwhile, changes in demand happen quickly. As restrictions have been lifted, demand for goods and services have increased well above trend as people make up for what they've missed during lockdown. Supply just can't keep up.

We can see this in many industries, such as in the car industry where a semiconductor shortage is constraining the ability to make new cars. As a result, demand for used cars has gone through the roof and prices have increased sharply.

We see problems in the energy markets. Much needed maintenance of gas infrastructure was delayed due to COVID and a planned pipeline from Russia has been delayed.

Non-COVID related issues such as a lack of hydro-electric power after droughts in Brazil, and unusually calm weather in Europe hitting wind power, means increased demand for gas instead. Energy prices have increased significantly, and several energy companies in the UK have gone bust.

In the UK, labour market imbalances exacerbate the problems. Fruit picking, meat processing and lorry driving are all sectors which have relied on non-UK workers. A combination of COVID and Brexit saw many people go back to their countries of origin, and for whatever reason they largely have not returned.

Even whilst we see labour shortages in some areas, we see concerns of unemployment in others. There were roughly one million people estimated to still be on furlough as the scheme came to an end at the end of September. It remains to be seen how many of those people will still have a job.

However, even if people are made redundant from industries still affected by the pandemic, it doesn't mean they can easily transition to the areas with high levels of vacancies.

Apart from those industries mentioned, the other sectors with the most vacancies are health and social care. Is it reasonable to expect someone made redundant from (for example) the travel industry to be able to re-train? This takes time even if there are willing candidates.

Temporary issues?

The world has changed as a result of the pandemic. Some of these changes may be temporary and some may be permanent. Unfortunately, it is difficult to know the difference.

Demand may be for different goods and services to those purchased pre-pandemic. Supply may not necessarily be of the right type or in the right place.

Supply and demand imbalances are therefore likely to remain for some time. Whilst things will eventually adjust to whatever the "new normal" is, in the short term this adds to inflationary pressures.

The headline inflation figures are also pushed higher by "base effects". Inflation is always quoted as a year-on-year figure, and prices were depressed this time last year.

Among the biggest contributors to inflation last August were restaurants and hotels, where prices were temporarily depressed in August 2020 due to the "Eat-Out-to-Help-Out" scheme. As prices return to

Table one: returns of the various IFSL Equilibrium funds compared to the average fund in the sector

Fund	6 months %	1 year %	3 years %	5 years %
Cautious	3.30	10.79	15.14	27.25
Balanced	4.11	13.41	17.73	32.02
Adventurous	5.18	17.42	23.97	42.65
UT Mixed Investment 20-60% Shares	**3.16**	**11.14**	**15.34**	**24.09**
Global Equity	6.52	22.28		
UT Global	**4.96**	**18.81**		

Source: FE Analytics as of 5 October 2021, based on a 0.5% investment management fee.

normal this summer, this looks inflationary. This will only get worse in October as the temporary cut of VAT from 12.5% to 5% expires.

The other big contributor to current inflation is transport. Over the period to end September, oil prices have roughly doubled from around $40 a barrel to $80 a barrel. For transport inflation to carry on at the same level, the oil price needs to double again next year. $160 a barrel seems unlikely in our view. Recent issues with petrol supplies in the UK have not yet had a real effect on prices.

Base effects should drop out of the figures sometime next year and perhaps will even have a negative effect on the headline number towards the end of 2022. At that time the figures will be starting from a higher base.

Many of the current issues should resolve themselves in time, provided no further COVID restrictions are imposed. Even in the energy market, further supplies of gas and electricity are coming on stream and things have got windier (!) so we'd expect to see a gradual return to normal. Unfortunately, the consumer price-cap for gas and electricity increases in October, so in the short term those higher costs will be passed on to consumers.

Of course, the longer the imbalances in the economy persist, the longer this elevated period of inflation will last. The pressure on central banks to act will increase.

Central banks are, of course, given target levels of inflation, typically around 2% pa.

Their principal tool to try to achieve this level of inflation is to change interest rates. Putting up rates increases the cost of borrowing for businesses, and mortgage repayments for consumers. This means there is less money available to spend, so putting up rates can take the "heat" out of an economy.

The problem this time is that the economy is not running particularly hot. Inflation is not being caused by excess demand, but by a lack of supply. That lack of supply may itself slow the economy, so putting up rates may be at best ineffective and at worst could contribute to a slow down.

Nevertheless, with rates at near-zero (or below) around the world, central banks would like them to increase in the next year or two. They also wish to reduce (or "taper") other forms of stimulus, such as quantitative easing.

Market implications

All of this has implications for bond markets in particular.

By buying a government bond such as a UK gilt or a US treasury bond, you are lending money to that government. These bonds are guaranteed by that government and so such investments are in many ways as secure as cash (although that of course depends which government you lend money to!).

The main risks you take in investing in such bonds are inflation risk and interest rate risk. The bonds pay a fixed level of interest so if you buy a bond and hold until maturity, you know exactly what your return will be. If inflation rises, your return will be less in real terms.

In addition, as changes are made to interest rates, those bonds can look more or less attractive relative to cash. The price which people are willing to pay for those bonds will change to reflect changing market conditions.

For example, had you bought a 10-year gilt at the end of 2020, the yield to maturity would have been around 0.24% pa.

At the time, the Bank of England base rate was 0.1% (it still is) and the country was in lockdown and the economy was suffering.

Today, the UK economy has largely re-opened and has been growing strongly as we recover from the pandemic. As a result, markets have re-assessed the likelihood of interest rates going up, and now the yield on a 10-year gilt is roughly 1.1% pa.

In essence, buyers of the bond have demanded a higher yield and so (given the inverse relationship between price and the yield) the price they are willing to pay has gone down. This means these gilt investors have lost money recently. So far this year, the average UK gilt investor has suffered a 9.52% capital loss (FTSE Actuaries Allstocks Gilt index, 1 January to 5 October 2021).

It seems likely that the Bank of England will put up interest rates midway through next year. However, they will probably be quite careful about it, putting them up first to 0.25%, then perhaps to 0.5% a few months later. After that, they have told us they may pause whilst they instead consider reversing some of their quantitative easing, before resuming should this proceed to plan.

In the US, the Federal Reserve say they may put up rates at the beginning of 2023. However, the longer inflation remains above target, the more likely it is that central banks will be forced to increase rates more quickly.

Knock-on effects

An increase in interest rates and inflation expectations can also have a knock-on effect to the stock market.

Higher borrowing costs can constrain company growth. But higher rates can also affect stock markets in subtler ways. Firstly, as bond yields increase, their potential returns look more attractive relative to stock markets. When bond yields were at close to zero, investors could look at almost any stock market and say it looks cheap compared to bonds. Now, that's more difficult an argument to make.

In particular, this impacts a certain type of stocks, which we call "growth stocks".

Growth stocks are those whose value is based on expectations of future growth. Typically, their share price is quite a high multiple of current earnings, but investors expect earnings to grow much quicker than average in future.

When deciding what is a fair price to pay for a share, analysts tend to look at future expected earnings and work out what that's worth in today's terms. To do this, they typically use a bond yield as a "discount rate".

The higher the discount rate used, the less those earnings are worth in today's terms. As bond yields go up, this reduces the price investors are willing to pay for such stocks.

Growth stocks typically include technology companies, who have done so well throughout the pandemic.

The danger for some investors is that they are typically highly exposed to such companies. The top five stocks in the main US market, the S&P 500 - which are all tech-related - make up nearly a quarter of the index. Many investors hold around 60% of their equity exposure in the US market, in line with global market capitalisation-weighted indices.

If they try and hedge their equity risk with other assets, investors typically do so with government bonds.

Chart one shows the rolling 90-day correlation between the main US stock market and US government bonds. Most of the time, bonds and equities are negatively correlated.

This year, they have been positively correlated – bonds and equities are moving together.

If bond yields continue to increase, the typical equity and bond portfolio may suffer a very poor period of performance.

Portfolio positioning

So how can we position our portfolios to protect against such moves?

There's no getting away from it – it's very difficult. Most asset classes are expensive relative to history, and many are driven by the same factors.

However, there are certain things we can do. Within the bonds we hold, we prefer corporate bonds to government bonds. These provide a higher yield and so give more protection against rising rates. They also come with credit risk as we are lending money to companies, but at the current stage of the economic cycle default rates are very low.

Within this, we have deliberately chosen some "floating rate" bonds, where the interest payments increase when rates go up.

Within equities, we have increased exposure to so-called "value stocks". These are the polar opposite of growth stocks, where the shares trade on a lower-than-average multiple of earnings. They are generally "cheaper" because they are unlikely to grow as quickly as growth stocks.

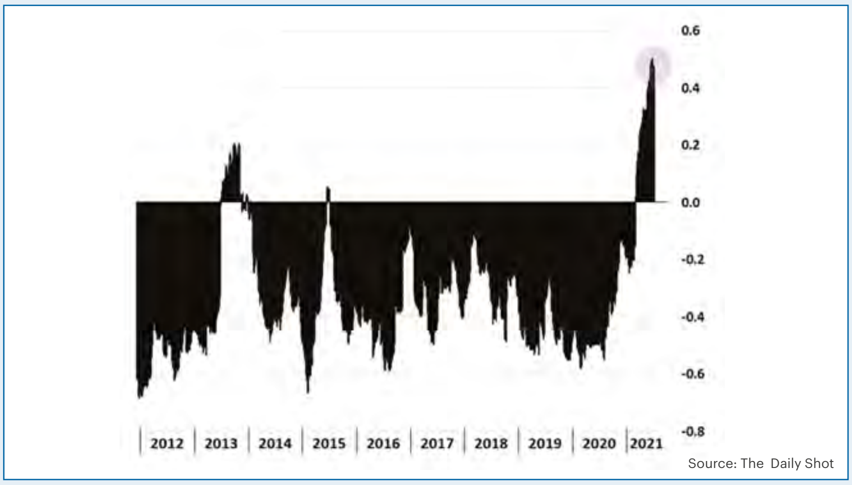
However, when interest rates or inflation are going up, such stocks can often do well. In particular, we have increased exposure to "recovery stocks", which have been hit hard by the recession but benefit most from the recovery.

We have also increased exposure to higher quality companies who have the ability to pass price rises on to consumers.

Meds, beds and sheds

Within portfolios we have recently increased our exposure to what we call "real assets", where our investments are backed by a physical object such as a building, a wind farm or a toll road. We are also looking at land such as forestry as discussed on page 20.

Chart one: S&P 500 futures - 10 year treasury futures correlation



What these assets have in common is that they tend to produce a very stable level of income, which often has some direct linkage to inflation. Capital values also tend to go up ahead of inflation over the long term.

In the past, we have held large allocations to property in portfolios. However, there are many challenges in property markets. Traditional high-street retailing has been hard hit by the switch to online shopping, and this has only been accelerated by the pandemic.

Similarly, with more people working from home at least part of the time, there are challenges for the office market too.

Finally, the way in which we can invest in property is changing too. The reputation of traditional property unit trusts and open-ended investment companies (OEICs) has been damaged after several episodes where they have had to "gate", stopping investors from getting their money out as the funds struggle to sell buildings.

The Financial Conduct Authority has made it clear it does not see these as suitable funds for retail investors. Amongst various regulatory changes, we expect notice periods to become mandatory, perhaps for up to three or even six months.

This does not mean we can't hold such investments, but we would only want to have very small amounts in funds with such little liquidity.

We are therefore investing more in real estate investment trusts (REITs). These are companies listed on the stock exchange but whose sole business is property. On the one hand, this means we can access property in a much more liquid way. However, whilst over the long-term returns will be driven by the underlying buildings, in the short term they can be volatile and more correlated to equity markets.

However, investing in REITS allows us to invest in a much more targeted way than a general property fund would. In our portfolios, we hold specialist funds holding distribution warehouses – which benefit from the shift to shopping online. We hold GP surgeries, care homes and social housing – all areas of growing demand and where rents are often backed by local authorities or other government-backed bodies.

In general, we can describe this strategy as meds, beds and sheds!

Infrastructure is another area which has significant government-linked tailwinds.

In particular, governments have committed to various climate related targets. To achieve these, we need to invest substantially in our energy infrastructure. This includes green energy, battery storage, and importantly a grid which can handle these changes. We need to invest in transport, including electric cars and public transport. We also need better "digital infrastructure" with decent broadband now considered an essential utility.

Even more traditional types of infrastructure like roads and bridges need substantial investment.

At the time of writing, the US still hasn't quite passed its $1.5 trillion bi-partisan infrastructure bill, but it seems likely that it will. The UK, China and the European Union are all looking to increase investment too.

Real asset investments are not immune from increases in interest rates, since often investors borrow money to invest in such projects. However, in our view, their natural inflation-linked properties make them a positive place to invest in the current environment.

Long-term outlook

Whilst the danger of a nasty inflation surprise has certainly risen, over the long term we still don't see high inflation as an issue.

Over the past 10 years, UK CPI inflation has annualised at around 1.75% pa, below the Bank of England's 2% target. That is despite current high levels as well as a period of elevated inflation after the Brexit referendum, when the pound fell sharply.

The past decade has in fact been characterised by concerns about deflation, especially in Europe and Japan where central banks have been forced to use negative interest rates.

Over the long term, economic growth is largely about demographics. For an economy to grow, we need to produce more "stuff" – whether that be goods or services – from one year to the next.

To increase output each year, we logically need to either increase the number of people involved in production or for production to become more efficient.

The UK population pyramid, as in most developing countries, is seeing a change in shape. Chart two shows the breakdown of our population by age as of 2018, and how it is projected to change by 2043.

The proportion of older people is expected to continue to increase, which is one reason we favour health care within our property portfolio. The ageing population makes it likely that the proportion of the population in work will decrease over time.

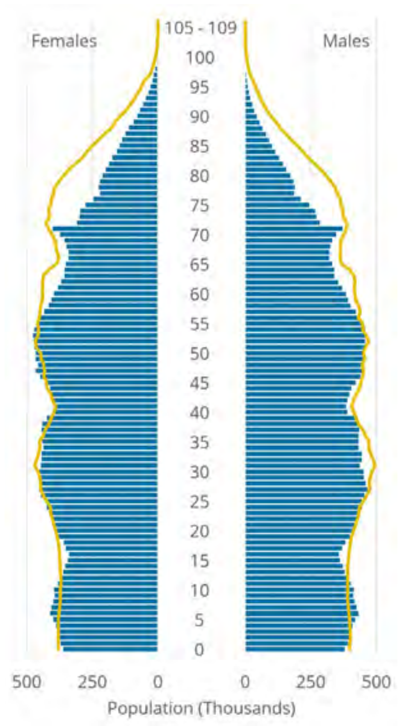
Unless we become much more productive, perhaps from new technologies such as artificial intelligence or robots effectively acting as new "workers", then we should expect growth to decrease too.

There is increasing concern that we could see a period of "stagflation" – which is a horrible combination of stagnant growth and high inflation.

However, levels of inflation tend to follow economic output over the long term. At the moment, prices are being driven by supply issues, but over the long term it is demand that is the dominant factor. Demand for more goods and services goes hand in hand with the economic cycle so slower growth ought to mean lower inflation.

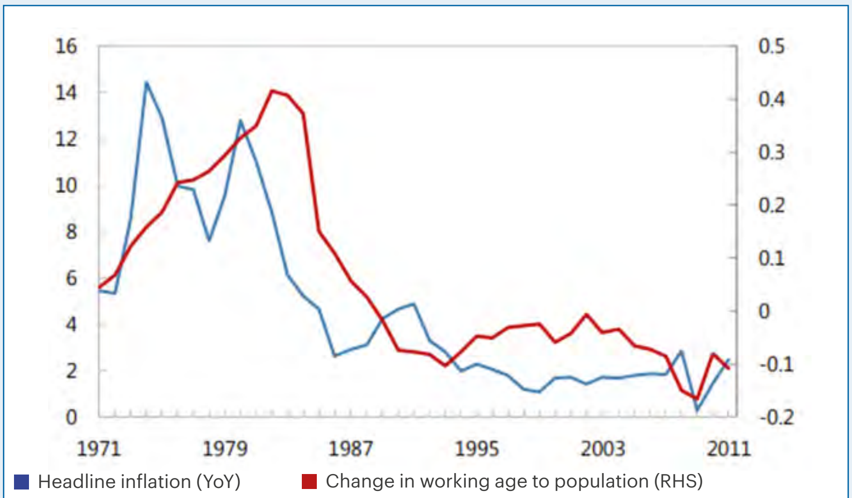
Chart three shows how the change in working age population in G7 countries has historically correlated to inflation in those countries. As the proportion of workers decreases, we should expect inflation to decrease too.

Chart two: The UK population pyramid



Source: ONS

Chart three: Ageing and inflation in G7 countries



1/ Average in G7 countries, including the United States, Canada, France, Germany, Italy, Japan and the UK

Source: IMF Working Paper – Impact of Demographics on Productivity & Inflation (https://www.imf.org/-/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2016/_wp16237.ashx)

It should be said that this view has recently been challenged, particularly by those citing the impact of China on the global economy. As China joined the global economy this was essentially a massive increase in the global workforce, offsetting declines in the West. China has helped drive down prices over the past couple of decades for various goods and services and contributed to the low inflation environment.

China has its own demographic challenges, particularly as a legacy of its now defunct one-child policy. In addition, globalisation appears to have gone into something of a retreat. Some argue that this will see a reversal of the deflationary trends of the past decades.

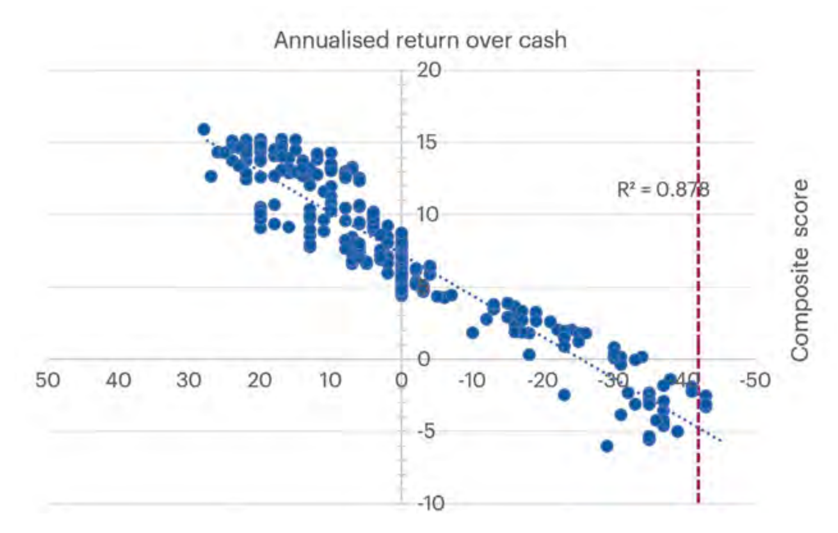
It is always difficult to try and predict long-term trends but, in our view, the evidence does not point to high inflation for the long term. Nevertheless, from an investment point of view it makes sense to hold inflation-linked assets in our portfolios.

Long-term investment returns

The aim for our core portfolios is to produce returns above inflation. Over 10 years, our cautious portfolio aims to beat UK CPI by 4% pa, our balanced by 5% pa, and our adventurous by 5.5% pa.

If inflation were to become more entrenched, then the target returns obviously become more difficult to achieve.

Chart four: US Composite Score vs 10 year return over cash



Source: Refinitiv Datastream/Equilibrium Investment Management

Chart five: US composite score and subsequent 10 year returns over cash

Source: Refinitiv Datastream/Equilibrium Investment Management

In order to give us the best chance to achieve the targets, we review what the likely expected returns are for all the main asset classes over the next 10 years.

Having done so, we can then tweak our long term "strategic" asset allocation towards those assets we think are more likely to help us achieve the return.

For most asset classes that we invest in, there are valuation metrics which in the past have been good guides to future return.

For bonds, the best guide is usually the yield. For equities, there are several valuation indicators such as price/earnings or price/book ratios.

We combine several different metrics into a single score for each equity region, and we can back test how useful an indicator this has been.

Chart four show the correlation between our score for the main US stock market, compared to the return over the following decade. Each dot shows a different 10-year period on the market.

Along the horizonal axis is our valuation indicator, ranging from cheap on the left to expensive on the right. On the vertical axis is the subsequent 10-year return, relative to the return on US cash. The reason for looking at returns relative to cash rather than just nominal returns, is that this makes some adjustment for the current interest rate environment. When rates are low, we can perhaps justify more expensive stocks.

Historically, our metric has been a very good guide to future returns, with a correlation of 0.88 (where one is perfect correlation).

The dotted red line shows where the valuation indicator is now – it is pretty much as expensive as it has ever been.

Chart five shows the correlation in a different way. The green line shows how our score has moved over time, right up to the present day. This is on the left-hand axis.

The gold line shows the annualised 10-year returns (this is on the right-

It is always difficult to try and predict long-term trends but, in our view, the evidence does not point to high inflation for the long term"

hand axis). This line ends in 2011, as we have not had any full 10-year periods to analyse since then. You can see that these two lines follow each other closely.

What you may well observe from the charts is that our indicator is signalling very low returns over the next decade, perhaps even less than cash.

Of course, this is based on history and the future may be different. The makeup of the US market is very different now with high weightings in technology, which historically has grown very quickly. We therefore might perhaps expect returns towards the higher end of the range.

However, it is often said that the most dangerous words in investing are "it's different this time"! There is certainly a major risk that the US market will struggle if history is any guide. This is not good news for passive investors who track the US market!

Luckily some markets look better value according to our data, notably the UK and China. By allocating more towards these regions and less towards the US, we believe we can increase our expected returns.

We can also allocate to some alternative asset classes, such as private equity. With many companies – particularly in tech sectors – choosing to stay private for longer, more of the growth can occur before listing on the stock exchange. By buying stakes in private companies in the years running up to a potential listing, private equity investment trusts can tap into potentially high levels of growth.

We can also increase our potential return (in our opinion), by active management. This is a somewhat controversial view as the average fund manager tends to underperform the index.

However, we have data for our portfolios going back to 2008, split out by the various asset classes. We can therefore compare our returns against an appropriate index in order to see how well we have done in selecting active fund managers.

Table two shows our relative returns over rolling five-year periods. It shows the average five-year outperformance compared to the index, the maximum and minimum relative returns, as well as how frequently we have outperformed in the past.

In each asset class we have demonstrated some outperformance with a high degree of consistency.

The highest is in Europe where we have outperformed by over 6% pa and have done so in every single five-year period.

The lowest is in the US where we have historically used largely index funds with only a small allocation to active.

Based on a typical balanced asset allocation, the weighted average five-year outperformance is 1.57% pa.

Whilst this is historic data, we believe it demonstrates we ought to be able to add value again in the future.

We will always use index tracking funds where appropriate and tend to have a mixture of different management styles at all times.

To achieve our target returns may be difficult for the next decade, but by making appropriate asset allocation changes and allocating to active funds appropriately, we believe we can increase the chances of doing so.

Table two: rolling 5-year returns relative to appropriate benchmark

Equilibrium sector	Average 5-year outperformance % pa	Max 5-year outperformance % pa	Min 5-year outperformance % pa	% outperforming periods
UK Conservative	0.90	5.21	-2.08	70.7
UK Dynamic	3.44	6.77	-0.87	95.5
UK average	2.17	5.99	-1.47	83.10
US	0.29	5.22	-1.31	48.18
Europe	6.08	10.91	2.29	100.00
Japan	1.56	3.31	-0.37	99.30
Emerging Markets	1.69	4.58	-3.08	75.23
Fixed Interest	1.03	3.44	-0.62	92.52
Property	1.52	3.52	-0.36	94.93
Infrastructure*	0.00	n/a	n/a	n/a

* We have not invested in infrastructure for a full 5-year period.

Source: Source: FE Analytics / Equilibrium Investment Management. Full methodology available on request.

Sector performance & analysis

UK equity

After several years of underperformance, the UK stock market has outperformed over the past 12 months.

For example, the FTSE All-Share has returned 25.6% over the 12 months to 5 October, whereas the S&P 500 in the US has gone up by 22.7%.

The UK market has little tech exposure and plenty of "old world" stocks like oil & gas and banks. This meant it has struggled for the past few years, especially during the pandemic, but has done well as economies begin to recover.

For some time, we have favoured small and medium sized companies in the UK, rather than larger FTSE 100 stocks. It is pleasing to see that our funds have by and large still outperformed in this recovery period, after also doing well during the downturn.

The best performing fund over this period has been the Chelverton UK Growth fund. However, you may be surprised to learn that we are in the process of selling it!

We are always looking forward rather than backwards. Despite this being one of the best funds in the sector since we purchased it, we are concerned this may not continue. The fund is now close to £2bn in size which, for a fund which holds smaller companies, is rather large. We have seen the number of stocks it holds increase substantially, and larger companies are being included.

For this reason, we think returns may not continue at the same pace and so are switching to the Octopus UK Micro Cap fund.

We still retain a very positive outlook for the UK and particularly smaller companies, which we believe look relatively cheap after the shares were hard hit by Brexit and the pandemic.

Global equities

Our global equity holdings have had something of a mixed period. Over three years, both our established market and emerging market (global speculative) portfolios have outperformed.

However, over the shorter term we've seen some funds struggle.

For example, the Baillie Gifford American fund which had previously been one of our most successful purchases, has underperformed over 6 and 12 months. This fund invests the majority of its assets in technology related stocks which have struggled as bond yields have increased.

The types of fund which have done well are more likely to be those who benefit from the "re-opening trade". For this reason, we added Schroder Global Recovery in late 2020 and this has performed exceptionally well over 12 months.

In emerging markets, our Invesco China fund holding performed terribly. Again, this is partly a tech story, with the fund being highly exposed to big Chinese tech stocks like Alibaba and Tencent. China has recently taken action against what it sees as monopolistic behaviour and tech stocks have been hit hard.

On the positive side, our exposure to India has very much helped performance, with Goldman Sachs India Equity returning over 53% over 12 months.

AIM

The Equilibrium AIM Portfolio invests in stocks listed on the Alternative Investment Market (AIM) which we believe qualify for Business Relief (BR). The primary purpose of the portfolio is for inheritance tax planning.

The good news over the last six months is that the economy is getting back to work. The release from lockdown, the relaxation of social distancing measures and successful roll-out of the vaccination programme, have all meant that business can resume.

That said, the rally in equity markets seen in the last quarter of 2020 and

Table three: UK equity fund performance

	6 months %	1 year %	3 year %
Premier Miton UK Multi Cap Income	5.37	32.71	28.10
Equilibrium UK Conservative Equity	5.37	32.56	19.61
UT UK Equity Income	6.19	28.46	9.00
Liontrust Special Situations	9.13	23.81	Not in portfolios
MI Chelverton UK Equity Growth	13.33	53.75	Not in portfolios
Premier Miton UK Value Opportunities	7.45	50.31	41.73
Equilibrium UK Dynamic Portfolio	9.01	34.70	30.00
UT UK All Companies	6.84	28.36	15.58

Source: FE Analytics to 5 Octoberl 2021. Numbers are in green where they are ahead of the benchmark shown into the first half of this year petered out over the summer months. Inflationary pressures, slower than expected relaxation of pandemic measures and supply chain issues have led investors to temper real growth forecasts moving into the final quarter of this year.

The companies in the Equilibrium AIM Portfolio have strong franchises that have enabled them to pass on some or all the price rises, highlighted in the recent round of company figures that showed good profit growth underlined by reinstated or raised dividend payments.

The table to the right illustrates this with many of the stocks in the top five such as Next Fifteen (digital marketing), Restore (secure document storage and disposal) and CVS Group (vets) providing essential or high-demand services that confer pricing power.

The stocks that have done less well have been stymied by the slower than expected recovery from the pandemic. Clinigen (pharmaceuticals) has seen significantly lower sales due to the reduction in oncology treatments and trials and Nichols (Vimto) is yet to see demand recover from the leisure industry.

The overall total return for the FTSE AIM Portfolio for the last six months has been 12.52% and for the FTSE AIM All-Share Index was 1.21% (for reference, the return on the main market FTSE All-Share Index was 7.02%).

The hope is that many of the supply chain issues are short-term bottlenecks that will unwind without having a significant effect on inflation for a prolonged period, and we look forward to a much more ‘normal’ year in 2022.

The two tables below show the five top- and bottom-performing stocks in the portfolio over the past six months:

Top stocks by total returns

63.4%	Next Fifteen Communications
41.1%	Restore
37.4%	Advanced Medical Solutions Gp
33.4%	CVS Group
32.9%	Learning Techs Gp

Bottom stocks by total returns

-20.7%	Clinigen Group
-5.6%	Nichols
-5.2%	AB Dynamics
-3.8%	GB Group
-2.2%	RWS Holdings

Alternative equity

Alternative equity is our term for those funds which are doing something a bit different from a mainstream equity or bond fund.

It includes assets like infrastructure, which tend to be listed equites but backed by a physical asset.

It includes absolute return strategies, where funds can also make money from betting on stocks to go down in price as well as up in price.

We use such assets where we think they have a better risk-adjusted return profile than one of the traditional assets. For example, at present we have some relatively low volatility absolute return strategies in place of some of our fixed interest exposure.

Over the long term we always say we should expect alternative equity to provide returns similar to those from equities – perhaps slightly lower – but with much lower volatility.

Chart six shows the returns over the past three years in blue, compared to the FTSE All-Share Index in red. Generally, returns have been steadier for our alternative equity portfolio and have been roughly in

Table four: Global equity fund performance

	6 months %	1 year %	3 year %
Baillie Gifford American B Acc TR in GB**	2.84	17.02	Not in portfolios
Vanguard US Equity Index Inc GBP TR in GB	8.13	23.19	50.13
Sector : UT North America TR in GB	8.40	23.54	46.05
Baillie Gifford Japanese B Inc TR in GB	-1.03	8.30	20.32
Sector : UT Japan TR in GB	1.87	12.07	16.38
Premier Miton European Opportunities F Acc GBP in GB	9.42	20.27	79.04
Sector : UT Europe Excluding UK TR in GB	7.00	19.52	30.65
Morgan Stanley Global Brands Inst Acc in GB	9.10	9.58	
Schroder Global Recovery L Acc in GB	6.19	44.70	
Sector : UT Global TR in GB	6.19	19.71	
Portfolio : Equilibrium Global Established Portfolio 01/10/2018 TR in GB	4.33	15.97	40.58
Portfolio : Glbl Est Benchmark TR in GB	7.73	21.82	39.55
Allianz China A-Shares in GB	8.27	Not in portfolios	
Baillie Gifford Emerging Markets Leading Companies in GB**	-8.39	10.56	Not in portfolios
Federated Hermes Global Emerging Markets SMID Equity in GB	-3.74	19.36	Not in portfolios
GS India Equity Portfolio I GBP TR in GB	26.46	53.35	88.11
Invesco China Equity (UK) in GB	-20.9	-16.98	13.51
Portfolio : Equilibrium Global Speculative Portfolio 01/10/2018 TR in GB	-3.08	10.55	42.87
Sector : UT Global Emerging Markets TR in GB	-3.40	14.42	31.58

Source: FE Analytics to 5 October 2021. Numbers are in green where they are ahead of the benchmark shown line with UK market returns over this period.

Fixed interest

Bonds have had a difficult time since the beginning of 2021.

As economies have recovered, expectations of future interest rate increases and higher inflation have meant bond yields have had to go up. This means prices have fallen recently.

Chart seven shows our fixed interest portfolio in green compared to the average corporate bond fund in red, and gilts in blue.

Chart six: Alternative equity vs FTSE All-Share

A - Equilibrium Alternative equity (11.73%)
B - FTSE All-Share (8.81%)

Source: FE Analytics / Equilibrium Investment Management. 05/10/2018 - 05/10/2021

Chart seven: Fixed interest vs benchmarks

A - Equilibrium Fixed Interest (4.41%)
B - UT Sterling Corporate Bond (1.17%)
C - FTSE Actuaries UK Gilts All Stocks (-6.59%)

Source: FE Analytics / Equilibrium Investment Management. 05/10/2018 - 05/10/2021

Chart eight: Property vs benchmarks

A - FTSE UK Real Estate Investment trusts (29.10%)
B - Equilibrium Property portfolio (19.49%)
C - Composite Property benchmark (10.65%)

Source: FE Analytics / Equilibrium Investment Management. 05/10/2016 - 05/10/2021

We can see that corporate bonds (lending to companies) have held up much better than gilts (lending to the government).

Our portfolio invests in a mixture of different types of bond, including the bonds of governments and companies around the world. Our high yield bonds have done particularly well, since they provide a higher level of income making them less sensitive to small changes in interest rate expectations.

High yield bonds also come with higher levels of credit risk since we are lending to higher risk companies, but as economies recover we are seeing low default rates.

We have also switched a portion of the portfolio to floating rate rather than fixed interest bonds, where the yield will increase as rates go up. This mixture has helped our portfolio to provide positive and relatively steady returns even in what has been a difficult environment for bonds.

Property

Historically, we have used property as a very effective diversifier in portfolios.

Typically, we've been able to achieve steady mid-single digit returns. The property funds we've used in the past were those who physically hold the buildings, and the performance of the fund simply reflects the rents received and the capital gains or losses on those buildings.

This means if equities or bonds sell off, property funds have often continued to provide positive returns.

However, as discussed on page 32, we are now using more real estate investment trusts (REITs). As these are listed on exchanges, this makes them much more volatile and more correlated to equities.

Chart eight shows our portfolio in red over the past five years, compared to the average property fund (excluding charity funds etc) in blue, and REITS in green.

As you can see, REITs have outperformed over this time period but with much greater volatility than traditional property funds. In particular, we can see that both our portfolio and the composite benchmark held up well in the early part of 2020, whilst REITs fell over 30%.

Model portfolio returns

Below is the performance of our Cautious Portfolio, Balanced Portfolio, Adventurous Portfolio and Global Equity Portfolio.

Cautious Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since launch* %**
Cautious Portfolio	3.30	10.79	15.14	27.25	95.94	116.96
Mixed Asset 20-60% Shares Sector	3.16	11.14	15.34	24.09	75.49	77.92

Balanced Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since launch* %**
Balanced Portfolio	4.11	13.41	17.73	32.02	112.21	130.06
Mixed Asset 20-60% Shares Sector	3.16	11.14	15.34	24.09	75.49	77.92

Adventurous Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since launch* %**
Adventurous Portfolio	5.18	17.42	23.97	42.65	137.63	152.26
Mixed Asset 20-60% Shares Sector	3.16	11.14	15.34	24.09	75.49	77.92

Global Equity Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since launch* %**
Global Equity Portfolio	6.52	22.28	Data not available			
IA Global	4.96	18.81				

We also show returns compared to the Asset Risk Consultants indices made up of other discretionary managers' portfolio returns. These are shown in the table below and are given to 1 October 2021 as ARC indices are published on a monthly basis:

Model Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since launch* %**
Cautious Portfolio	4.01	11.77	15.14	28.78	95.68	117.67
ARC Sterling Cautious PCI	2.21	5.69	10.94	16.70	45.75	56.75
Balanced Portfolio	4.72	14.39	17.61	33.83	111.28	130.83
ARC Sterling Balanced PCI	4.12	10.34	14.85	25.67	73.39	77.09
Adventurous Portfolio	6.17	19.09	24.16	45.81	136.81	153.86
ARC Sterling Balanced PCI	4.12	10.34	14.85	25.67	73.39	77.09
Global Equity Portfolio	7.86	24.18	Data not available			
ARC Sterling Steady Growth	5.59	14.43				

Note: performance shown is after a 0.5% investment management fee with no adjustment for financial planning or platform charges

* Launch date 1 January 2008. All data to 5 October 2021. Figures are highlighted in green where they are in excess of the relevant sector.

Sector portfolio returns

Equity Portfolios	6 months %	1 year %	3 years %	5 years %	10 years %
UK Conservative Equity	5.37	32.56	19.61	33.00	147.68
UT UK Equity Income Sector	4.96	28.12	8.96	20.71	110.87
UK Dynamic	9.01	34.70	30.00	65.67	241.28
UT UK Equity All Companies Sector	5.67	28.10	15.60	33.26	132.07
Global Established	4.33	15.97	40.58	81.33	296.92
Global Established Benchmark *	7.75	21.84	39.58	77.34	283.1
Global Speculative	-3.08	10.55	42.87	66.87	175.38
UT Global Emerging Mkts Sector	-3.75	13.23	31.58	42.89	108.33
Equilibrium AIM **	12.52	37.98	27.11	77.90	414.05
FTSE AIM All Share	1.21	26.25	17.72	56.37	103.65
Alternative Equity	4.80	10.78	8.90	20.09	84.83
UT Mixed Asset 20-60% Shares	3.16	11.14	15.34	24.09	75.49
Fixed Interest Portfolio	1.21	4.38	24.53	30.07	86.66
UT Sterling Corp Bond Sector	0.78	1.16	15.33	16.44	63.32
Property Portfolio	2.10	0.19	0.40	19.49	50.02
Composite Property Benchmark ***	4.50	4.70	-0.42	10.65	35.64

* Global Established Benchmark is 40% UT North America, 40% UT Europe Ex UK, 20% Japan.
** Performance data prior to 17 March 2015 (launch date) is calculated using the backtested model portfolio.
*** Composite Property Benchmark is an equal weighting of all eligible funds in the UT Property Sector. Property portfolio switched to cash 15 June 2012 to 11 April 2013 as we did not hold property funds in this period.

Figures are highlighted in green where they are in excess of the relevant 'Mixed Asset' sector.

Market returns

Equity Markets	6 Months %	1 Year %	3 Years %	5 Years %	10 Years %
FTSE 100 Index (UK)	7.18	23.47	8.56	22.53	103.34
FTSE 250 Index (UK Mid Cap)	5.85	31.84	22.42	41.45	208.40
FTSE All-Share Index (UK)	7.02	25.62	11.73	26.92	120.17
FTSE AIM All-Share	1.21	26.25	17.72	56.37	103.65
S&P 500 Index (USA)	9.21	22.72	50.15	100.95	395.18
MSCI Europe Ex UK Index	6.96	18.18	30.22	52.29	178.27
Topix (Japan)	-0.25	9.24	12.89	37.95	152.57
MSCI Emerging Markets Index	-4.47	10.12	26.97	41.64	112.25
Fixed Interest					
FTSE Actuaries UK Conventional Gilts All Stocks	-1.42	-6.59	9.82	5.58	40.81
UT Sterling Corporate Bond Sector	0.78	1.16	15.33	16.44	63.32
UT Sterling High Yield Sector	2.04	9.55	16.66	26.57	84.81
Property					
Composite Property Benchmark*	4.50	4.70	-0.42	10.65	35.64
Other Measures					
Bank of England Base Rate	0.05	0.10	1.24	2.02	4.55
UK Consumer Price	2.47	2.75	5.16	10.88	18.75

* Property benchmark is a composite of all eligible funds in the UT Property sector.

Risk warnings and notes

Past performance is never a guide to future performance. Investments will fall as well as rise.

Any performance targets shown are what we believe are realistic long-term returns. They are never guaranteed.

None of the information in this document constitutes a recommendation. Please contact your adviser before taking any action.

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 5 October 2021.
- Model portfolio performance is stated after a 0.5% investment management fee with no adjustment for financial planning or platform charge.
- Your own performance may vary from the model due to dividend pay dates, transaction dates, contributions and withdrawals.
- Actual performance may also differ slightly due to constraints over how we can reflect fees and discounts from fund managers. These are assumed not to change over the whole investment period. In reality, discount levels change as we change the funds in which we invest.
- Individual sector portfolios are shown with no charges taken off or fund manager discounts applied.

For details of your own portfolio performance, please refer to your half-yearly statement from the wrap platform in which you are invested. We will also provide personalised performance information at your regular reviews.

Current holdings of the Balanced Fund

Asset class	Fund name	% held
Short Dated Fixed Interest	Royal London Short Duration High Yield	3.0%
	TwentyFour Monument Bond Fund	2.2%
Fixed Interest	Allianz Strategic Bond	5.0%
	Nomura Global Dynamic Bond	3.9%
	Royal London Extra Yield Bond	3.3%
	TwentyFour Dynamic Bond	5.1%
	Muzinich Asia Credit Opportunities	2.7%
	GAM Credit Opportunities	2.0%
	Waverton Sterling Bond	1.7%
	M&G Global Floating Rate High Yield	3.0%
Property	Time Commercial Long Income	1.0%
	Supermarket Income REIT	0.7%
	Primary Healthcare Properties	0.6%
	Segro	0.6%
	Civitas Social Housing	0.5%
	Target Healthcare	0.6%
Defined Returns	Atlantic House Defined Returns	0.9%
Direct Defined Returns	Societe Generale FTSE Autocall Dec 2017	2.7%
	JPM FTSE Autocall September 2018	2.5%
	BNP Paribas FTSE/S&P Autocall Feb 2020	1.6%
	Credit Suisse FTSE/S&P Autocall Jan 2018	2.3%
	BNP Paribas FTSE Autocall Jan 2020	1.2%
	Morgan Stanley FTSE/S&P Autocall Mar 2019	1.1%
Alternative Equity	Lazard Global Listed Infrastructure	2.0%
	Carmignac Long Short European Equity	2.5%
	Foresight UK Infrastructure Income	1.5%
	Lazard Rathmore Alternative	4.5%
	Foresight Global Real Infrastructure	2.5%
	Blackrock European Absolute Alpha	2.5%
	Legg Mason ClearBridge Global Infrastructure	1.6%
	Man GLG Absolute Value	1.4%
	MontLake Crabel Gemini	1.2%
UK Conservative Equity	Miton UK Multi Cap Income	3.3%
UK Dynamic Equity	Miton UK Value Opportunities	4.0%
	Chelverton UK Growth	0.9%
	Liontrust Special Situations	3.1%
	Octopus UK Micro Cap Growth	0.9%
Global Established Equity	Baillie Gifford Japanese Co.	1.7%
	Miton European Opportunities	2.1%
	Vanguard US Equity Index	0.5%
	Baillie Gifford American	1.2%
	Morgan Stanley Global Brands	1.3%
	Schroder Global Recovery	2.7%
	Lindsell Train Global Equity	3.3%
	L&G US Equity Responsible Exclusions	0.8%
Global Speculative Equity	Invesco China	1.1%
	Goldman Sachs India	0.9%
	Hermes GEM SMID	1.0%
	Baillie Gifford EM Leading Companies	1.3%
	Allianz China A-Shares	1.1%

These are the holdings in the IFSL Equilibrium Balanced Portfolio as of 1 October 2021. These will change periodically and have not all been held throughout the period covered by this document.

We'd like to hear from you

This issue has shone a light on many of the hot topics surrounding ESG – now, we want to hear from you.

Post your top tip for sustainable living on Facebook, Twitter or LinkedIn with the hashtag **#makingpeopleslivesbetter** and tag Equilibrium.

We'll choose our favourite tip and the winner will receive a bottle of champagne and a tree planted in their honour.

@EquilibriumFP

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