

ECONOMIC AND FUND REVIEW

Global equity markets made further gains in the second quarter as the economic backdrop slowly improved. Inflationary pressures continued to build. The resulting rotation between industrial sectors seen in the first quarter steadied as policy makers signalled they were monitoring price pressures closely and would act earlier than expected if necessary. As a result, investor attention turned to stocks that are well-positioned for the medium term and less geared to the current tensions between growth and inflation. This was a mixed blessing for the food economy: agriculture equipment lost some of its recent gains, while high-quality businesses such as nutrition, ingredients and consumer staples performed well. In unit price terms, the fund was up 6% in sterling over the second quarter.

The best contributor to performance was leading meal-kit provider HelloFresh, which continued to deliver strong growth in customers, revenue and profits. It has been signing up new customers around the world, even as lockdown restrictions have eased, highlighting the strength of its proposition and reinforcing our view that many of the recent shifts in consumer behaviour are here to stay. Givaudan and DSM, global leaders within ingredients and nutrition, also contributed to performance. Both reported better than expected Q1 results and raised guidance for the rest of the year.

Deere & Co and Agco performed poorly as their share prices retraced some of the extraordinary gains seen over the previous 12 months. The commodity rally that began as the first vaccines were approved in November 2020 ran out of steam in the second quarter. It sparked some profit-taking in indirect beneficiaries of higher crop prices. We remain confident that both companies will benefit from a sustained upturn in agricultural equipment demand and both stocks remain top-10 holdings.

We sold Fevertree, the purveyor of premium tonics, as we believe the current valuation more than prices in the expected rebound in sales as hotels, bars and nightclubs re-open over the coming months. New positions include Mondelez, one of the largest confectionary companies in the world, and a beneficiary of the trend towards indulgent “snacking”, whether at home or on the go. We also added McCormick – a leader in the “flavour” market, with a portfolio of spices, seasonings and sauces brands, sold both to consumers and to the food supply chain.

OUTLOOK

Due to the impressive, if globally uneven, vaccine roll-out, many believe the worst of the pandemic is behind us and a ‘new normal’ is beginning to take shape. As societies embrace the full potential of the digitalised world, the traditional models of work, education and leisure are becoming permanently more flexible, tailored and, arguably, productive.

These shifting patterns in how we live our lives will mean that many of the changes in the ‘field to fork’ food ecosystem seen over the last 18 months will prove more durable than some might expect, even as restrictions continue to be eased. We are excited by the potential these trends are creating for the Sarasin Food & Agriculture Opportunities Fund.



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