SARASIN IE

MULTI ASSET TARGET RETURN

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ECONOMIC AND FUND REVIEW

Russia's invasion of Ukraine, and resultant sanctions, dominated markets during the first quarter. From late January, the build-up of troops eventually led to the largest war in Europe since World War II. Since the conflict started, commodity prices – particularly oil and gas – have reached new heights, increasing the risk of a stagflation in Europe. Although Covid-19 appeared to fade into the background in many developed countries, in Japan and China restrictions remained in place and continued to cause uncertainty.

Equity markets sold off in early January. Inflation drove government bond yields higher – and prices dropped – as markets anticipated imminent interest rate increases. The sell-off in bonds paused due to the war in Ukraine, with investors seeking refuge in safe-haven assets, before selling off once more as it became clear that inflation was likely to intensify. However, an even greater inflationary environment did not lead to a renewed sell-off in equities. In the hope that negotiations would result in a ceasefire or peace agreement in Ukraine, markets began to recover in March.

The fund's position in Splunk contributed positively to returns as the US software company recovered from the news – announced in Q4 2021 – that the CEO had stepped down. In addition, Splunk delivered a strong set of results for the last quarter of 2021. Other contributors to returns included agricultural manufacturer Deere, which benefitted from strong results and guidance. Demand for the company's products remains strong, meaning Deere has significant pricing power.

Conversely, rail-stock manufacturer Alstom detracted from performance as negative sentiment on European equities led to a broad sell-off. This was especially evident in companies reliant on Russian energy or the European consumer. Following years of exceptional share price returns, semiconductor manufacturer ASML weighed on returns. The prospect of tightening financial conditions coupled with negative sentiment towards European equities conspired to drive the share price lower.

We sold Home Depot during the quarter due to a deteriorating outlook. The US-based home retailer's share price fell over the past three months as US interest rate expectations rose significantly. This will likely lead to increasing mortgage rates and less disposable income for consumers to make home improvements.

OUTLOOK

The Russia-Ukraine conflict has knocked Covid-19 headlines off the front pages. However, the long-term impact of sanctions and rising oil prices on growth and inflation will only be clear in the months ahead. In the short term, market volatility is expected to remain heightened.

Looking out to the longer term: the invasion of Ukraine has come at a difficult time for the global economy. In the aftermath of the pandemic, prices are already rising at levels not seen in 40 years. In addition, Russia is one of the world's largest gas producers and energy prices have been rising sharply as a result. In short, the impact on price levels could become a unique challenge for global central banks. If allowed to persist, it could raise the risk of stagflation. The crisis is also likely to depress growth, sustain uncertainty and damage consumer and business confidence.

In addition, the fragmentation of global supply chains and cross-border trade may be further exacerbated. In particular: China's 'dynamic clearance' policy – which requires testing and quarantine for positive Covid-19 cases – is of great concern. It can lead to factory shutdowns and further supply chain disruption. For global manufacturers though, these are yet more reasons to shorten supply chains, bolster domestic production facilities and sacrifice margins in return for security of supply.

As events change with remarkable speed, we continue to monitor risks to the outlook. We remain focused on high-quality assets that we believe are well positioned to withstand the implications of geopolitical events.

Beyond the conflict in Ukraine, there are other challenges that require close monitoring. Rising inequality must be tackled, while the climate crisis is an unprecedented threat to humanity. Corporations and investors have a role to play in both instances, seeking to support innovation and development through effective allocation of capital.

Despite the challenges, we remain focused on the opportunities inevitably provided during times of great upheaval. Ultimately, the reaction function of central banks to inflation and economic data is likely to be the defining factor for asset markets over the next 12 months.

IMPORTANT INFORMATION

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There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). The investments of the fund are subject to normal market fluctuations. **The value of the investments of the fund and the income from them can fall as well as rise and investors may not get back the amount originally invested.** If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. **Past performance is not a guide to future returns and may not be repeated.**

Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments.

For efficient portfolio management the Fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. The Fund may also invest in derivatives for investment purposes.

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