AM League portfolio review

Our process is based on a core belief that sustainable companies have better growth and are more resilient than the market gives them credit for. We use this underappreciated advantage as we look to deliver outperformance across equity, bond and managed portfolios and, in supporting these sustainable companies, we can also accelerate environmental and social improvements.

We have a 13-strong Sustainable Investment team that has been managing funds in this way for two decades, with the first Sustainable Future funds launched in 2001. A key differentiator is the fact that all the sustainable elements are integrated within a single team. We do not have separate fund management and ESG divisions, for example; instead, every team member is responsible for all aspects of financial and ESG relating to an investment decision.

After a very difficult March as the full ramifications of Covid-19 became clear, the second quarter saw markets retrace a large part of their losses, with the huge stimulus effort from central banks and governments considered sufficient to avert a financial crisis. These measures helped ease some of the impact of lost earnings, supported jobs and provided markets with liquidity and reassurance – but also had the effect of massively expanding already bloated government balance sheets.

The situation is unique and dynamic with no contemporary examples to use as a guide and it is impossible to predict the nature of economic recovery – although that has not stopped people from trying. Ultimately, we are long-term optimists and believe we will reach a new normal at some point, overcoming this challenge as we have others in the past.

Rather than trying to work out when the market will recover, our process focuses on the structural shift to a more sustainable economy and our 20 themes that identify companies making the world cleaner, healthier and safer. The impact of Covid-19 on our health, livelihoods and economies does not change our view that stocks exposed to these themes will see strong growth in the coming years and we would expect many of these areas to accelerate as the world recovers.

On the portfolio, Paypal has been among our best-performing holdings, with digital payments (under our *Increasing financial resilience* theme) a good example of a trend accelerating during the crisis. PayPal continued to post revenue growth in March and April and announced 10m new active accounts in Q1 and a further 7.4m in April alone (the latter represents around 250,000 new customers a day, 135% more than in April 2019).

Our thesis is largely based around engagement and we look at the number of new customers that sign up and how frequently they use PayPal when making a purchase. The reason we focus on these metrics is that PayPal, like most payment companies, has very high incremental margins; simplistically, the more payment volumes it processes, the more cash is generated for the company and its shareholders.

Elsewhere, our *Connecting People* theme also continues to gather pace, with ongoing growth in data consumption as people communicate and stream more, and the next generation of 5G telecommunication rolls out. Remote working has moved to a new phase during the Covid crisis and we believe this shift is unlikely to reverse.

Telecoms infrastructure is the backbone of the digital economy and American Tower is a top-performing holding in this space, continuing to see demand for wireless telecommunication capacity in the US, as well as Brazil and India.

Increased communication is important for the development of a sustainable economy and global cohesion, but the challenge is to decouple this exponential growth from the environmental impacts. Top performer Equinix is a key player in this, with its co-location data centres providing a gateway into digital infrastructure such as public cloud computing networks. Equinix stands out as the only genuinely global player in this market and its centres have become an integral part of the plumbing for the digital economy, addressing critical environmental impacts of the technology industry.

Elsewhere, we continue to be proud of the work many of our healthcare holdings are doing in the fight against Covid-19 across the spheres of therapies, testing and vaccines, with names including CSL, Thermo Fisher

Scientific and Roche all among our stronger names. Thermo Fisher is supplying the UK government with virus testing kits for example while CSL is part of the global effort to provide antibody treatments, taking blood from people infected with Covid-19 and creating therapies to help patients fight off the virus.

In terms of recent additions to the portfolio, we initiated a position in Ansys, a global leader in simulation software. Its products help customers get their own products to market quicker, reducing risks around defects and generally improving innovation. Revenues are tied to R&D budgets for clients, which we feel are much less cyclical than other areas in which businesses tend to invest.

Overall, we are pleased with the portfolio's performance and satisfied with the actions our companies are taking to navigate these difficult times. Periods of volatility can help us increase our positions in high-quality companies with strong prospects and we therefore remain confident the portfolio is well set for the long term.