



Russia, Ukraine and Some Observations Amidst the Uncertainty

Our thoughts are with every individual impacted by the events unfolding in Ukraine.

1 March 2022

First of all, while our role is to understand and interpret capital markets and corporate fundamentals, the events in the Ukraine are very distressing on a humanitarian level and a stark reminder of the consequences of armed conflict. Our heartfelt thoughts go out to all those affected by the tragic events of the past week.

While we cannot disclose our current individual fund holdings for the Global Growth Equity Strategy, we did not hold any Russian listed stocks as at 31 December 2021 and have not invested directly in Russia for many years before this point, given concerns over political, currency and macroeconomic risks, as well as the broad opportunity set elsewhere within emerging market equities.

The current events in Ukraine are clearly unpredictable, both with respect to the outcome of the conflict itself and the consequences of an increasingly isolated Russia, following united and broad condemnation by many sovereign states, of Russian military incursion into an independent country. The impact of the conflict remains very uncertain but will be highly dependent on the extent and duration of the events we are seeing, as well as the secondary effects of very significant sanctions being applied to Russia and the Russian economy.

Global equity markets outside of Russia and its neighboring countries

have so far been absorbing the change in political and economic risk with a degree of calm, albeit intra-day and single stock volatility are both elevated, given the added uncertainty that has emerged, compounding the complexity of economic regime change in 2022 that disrupted equity markets to a significant degree in January.

In our January 2022 performance report for the Global Growth Equity Strategy, we commented that the year began with an equity market pull back, given concerns relating to sharply rising inflation and the prospect of faster monetary policy tightening. This has been a significant headwind for many growth-oriented investment approaches given the magnitude of the market's rotation (January 2022 evidenced the second largest spread of Value outperformance versus Growth spanning the past two decades). With rising oil prices once again, this is naturally catalyzing questions amongst investors which we address below.

While markets are weak in Europe today, performance in an absolute and relative sense over the trailing week to Monday's close (28 February 2022) is relatively stable in the context of such significant events. We would add that the trailing week is not a time-period we would not normally refer to, while this short-term outcome does not reflect the clear nervousness of markets surrounding tail risks relating to military conflict in Europe.



Laurence Taylor
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The most notable outcome of the conflict in Ukraine in an economic fundamental dimension is the ongoing strength of oil prices, with Brent and WTI (West Texas Intermediate) Crude Oil rising by c5% in a week, leaving gains at approximately 30% YTD. This clearly signifies a risk with respect to ongoing inflation pressures/ data overshooting. Policymakers are therefore facing an added challenge of complexity with respect to interpreting supply-driven inflation, while wanting to control for any structural inflation that is building in pockets of the global economy.

This is a difficult balance given the natural inclination of central banks to ease back on tightening at points of intense uncertainty or potential disruption to the real economy. The ability to 'do nothing' or defer tightening may be limited in this instance given the magnitude of near-term inflation figures, but we continue to believe that there is a willingness of central banks to look through supply chain disruption that we believe has been a very significant contributor to inflation, especially as the Delta and Omicron strains of COVID-19 disrupted economies so intensely in Q4 2021.

Outlook

In aggregate, we believe this backdrop implies a continuation of steady interest rate increases over the course of 2022-23, leaving a higher interest rate environment, albeit with peaking and subsequently fading inflation. This is an environment better understood and priced by markets after the initial and intense surprise factor of Q421 inflation prints. Global economic, earnings and equity valuation fundamentals are combining to create a solid set up for equity investors, but with an over-arching headwind of extreme uncertainty. Volatility will undoubtedly be a feature of capital markets in the coming weeks. This is not an unfamiliar characteristic of equity investing or unfamiliar ground for our portfolio managers.

While observing the data with an open mind, we question the longevity

of the current outperformance of equities perceived as being optically cheap, even more so after January's magnitude of outperformance of 'Value' stocks and the recent strength in oil prices. With oil now approaching US\$100 a barrel (with a futures curve in deep backwardation) and with policymakers having to tighten monetary policy to control inflation, we see a much more balanced outlook for the extremes of value-growth that have evidenced so much volatility in recent weeks.

While COVID related news flow has taken a back seat given the shocking events in Ukraine, we would add that the world has made significant progress on this dimension. While it is too early to say we are living in a post COVID world, we do see a pathway to living with the virus in the near term. This is especially positive with respect to alleviating segments of high inflation, even as oil prices step up once again as supply is further disrupted.

It is worth noting that the sanctions being applied by sovereign nations to Russia are of a magnitude rarely seen for a large economy and are being reflected in the weakness of Russia's equity market, currency and also in the central bank interest rate. While the sanctions in isolation do not materially impact our outlook for the global economy, we remain very watchful of second derivative impacts in an economic dimension.

With respect to escalation of the current conflict, we do not have insight above and beyond other investors and will clearly be monitoring events carefully, while continuing to apply our investment framework which embodies both diversification and conviction across regions and sectors.

We continue to believe in the outperformance potential of companies capable of fundamentally improving, growing and compounding long term earnings and cashflows at above market levels, as well as our ability to target excess returns from our bottom-up research which we leverage in all market environments.

Company analysis is where we have been focusing our time throughout this period of volatility, as we did during the outbreak of COVID in 2020 and

previous periods of market uncertainty over the past decade and more.

Once again, our thoughts are with every individual impacted by the events unfolding in Ukraine.

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