31 OCTOBER 2022

MATTIOLI WOODS FUNDS

FP MATTIOLI WOODS RESPONSIBLE EQUITY FUND

FUND MANAGER COMMENTARY

MARKET REVIEW

Equity markets reversed course in October after a period of negative returns. Broadly, this reflected a respite from an onslaught of bad news, rather than any specific catalyst. For us in the UK, events may seem anything other than benign but as we know, financial markets tend to look first to the US. There, a return to economic growth in the third quarter, after declines in the first half of the year, provided some positivity and a sense the US may be one of the few economies to avoid recession. However, a higher than anticipated inflation reading suggests the US Federal Reserve will remain resolute in its determination to stamp out inflation – even if it comes at the expense of economic growth. In response, bond yields moved upwards on an expectation interest rate policy could peak at a higher rate or be extended beyond that previously priced in. In terms of growth, we are seeing weakness in manufacturing indicators and when considered alongside increased housing and energy costs, would expect consumer activity to also contract. Essentially, financial markets are reacting to every data point and each word uttered by central bankers. Consequently, we expect volatility to remain elevated in coming months. Domestic assets eventually regained some composure as it was announced Rishi Sunak would be appointed Prime Minister. One of the 'benefits' of recent falls in the value of sterling, relative to the US dollar, has been the outperformance of global equities when held on an unhedged basis (which typically most are). Perhaps this unintended tailwind has now been removed?

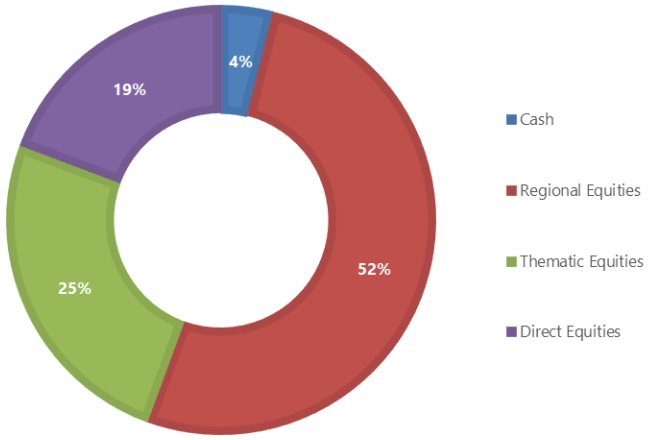
FUND REVIEW

Given the political turbulence we have seen in the UK, our recent decision to reduce our UK equity weighting looks prescient. The Conservatives are now on their third leader during this parliamentary term. We have been through some serious economic turbulence due to the Truss/Kwarteng mini-Budget, which caused sterling to fall and gilt yields to rise sharply. The new Prime Minister Rishi Sunak cuts a rather more sober figure alongside Chancellor Jeremy Hunt, which is what is needed to calm markets. Both sterling and fixed interest markets have recovered to pre-Budget levels but there are still challenges ahead. While valuations on the UK stock market look cheap, there is likely to be pressure on earnings with falling volumes and rising costs hitting profit margins. We remain reasonably defensive in our positioning across the portfolio, although with US interest rates looking to peak in 2023, we are looking at opportunities to increase beta in the coming months. Last month we wrote about the volatility in the Synthomer share price, which had fallen due to balance sheet concerns. We decided to add to this holding after the company's banks offered more support while they look to sell their peripheral businesses. If they manage to sell the US business that has been earmarked for disposal, the balance sheet will be restored to health and the equity will look attractive.

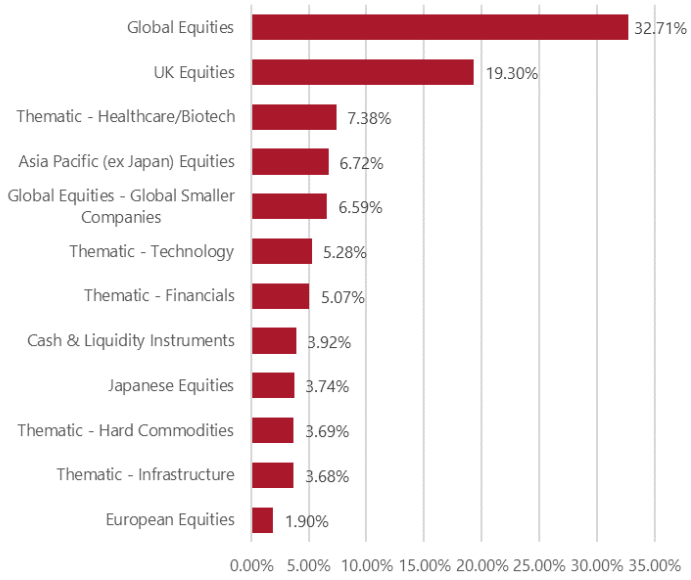
ENGAGEMENT

We engaged with Janus Henderson Sustainable Technology, Schroder Global Sustainable Value, Galliford Try, Tesco and Coats during the month. Richard Clode at Janus Henderson gave a reassuring presentation on his fund, which has had its challenges this year. His focus on profitable technology companies was important, and these companies had held up well during the technology 'sell off'. This thematic approach means that the ESG credentials are very strong. One of the fund managers on the Schroder Fund, Liam Nunn, gave an update on recent performance. This remains our largest fund holding in the Responsible Equity Fund and has held up well due to its 'value credentials'. However, the fund managers take ESG very seriously and they were able to talk about one of their new purchases, Ebay, which is at the heart of the circular economy and now trades on an attractive valuation. The highlight of the equity meetings was the Coats ESG Investor Day. Textiles manufacturing is one of the most water intensive industries in the world and polyester does not biodegrade easily, so the new recycled thread offering from Coats is proving hugely popular with customers. We believe Coats is a first-class operator in a challenging industry and a good example of our' value and values' philosophy.

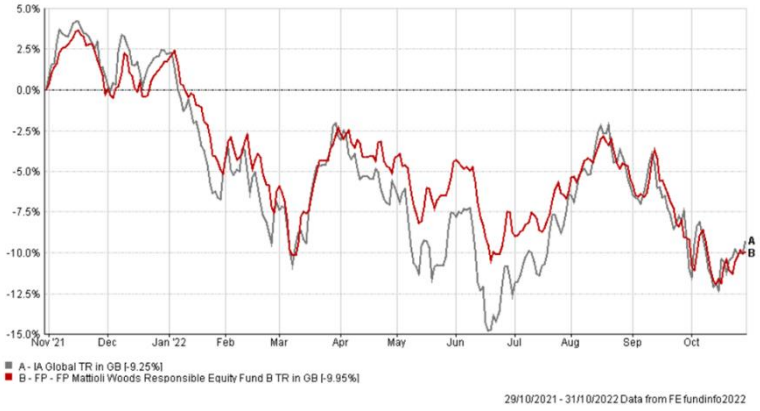
ASSET ALLOCATION



FUND COMPOSITION



FUND PERFORMANCE



CUMULATIVE PERFORMANCE as at 31.10.2022

	1 month	3 months	6 months	1 year	3 years
Fund	-0.81	-3.96	-6.00	-9.95	
Benchmark	2.01	-3.03	-3.47	-9.25	25.26

ANNUAL PERFORMANCE

Past performance data will not be published until the Fund has been running for a full 12-month calendar year period.

TOP TEN HOLDINGS as at 31.10.2022

Holding	Percentage
BNY Mellon Sustainable Global Equity Income I W Inc	7.96%
Impax Global Equity Opportunity X Acc	7.64%
Schroder Global Sustainable Value	7.51%
Polar Capital Healthcare Opportunities I Inc	7.38%
Stewart Investors Asia Pacific Sustainability B Acc	6.72%
BMO SDG Engagement R Inc	6.59%
Janus Henderson Sustainable Future Technologies G Acc	5.28%
Polar Capital Global Insurance I Inc GBP	5.07%
Regnan Global Impact A Acc	4.91%
Janus Henderson Global Sustainable Equity I Inc	4.69%

TOP TEN UK DIRECT EQUITY HOLDINGS as at 31.10.2022

Holding	Percentage
AstraZeneca plc	1.08%
Coats Group plc	1.02%
Smith & Nephew plc	1.01%
Unilever plc	0.99%
XPS Pensions Group plc	0.95%
National Express Group plc	0.74%
Tesco plc	0.73%
Reckitt Benckiser Group plc	0.72%
Devro plc	0.71%
Tate & Lyle plc	0.71%

FUND AIM

The investment objective of the Fund is to generate a combination of capital growth (the increase in value of investments) and income (money paid out by an investment, such as a dividend from a share or from fund) over an investment term of 5-year rolling periods. Capital growth will be prioritised over income generation.

INVESTMENT PHILOSOPHY

The Fund uses a global, multi-sector approach, investing in a combination of direct equities in the UK, as well as geographic and thematic equity funds to generate long-term capital growth and income. The Fund defines responsible investing as aiming to generate attractive long-term returns, while ensuring that the companies owned are behaving in the interests of their communities and wider society.

FUND DETAILS

Fund managers:	Christopher White, Jonathon Marchant and Lauren Wilson
Fund size:	£7.73 million
No. of holdings:	44
Sector:	IA Global
Benchmark:	IA Global
Distribution policy:	Half-yearly
Payment dates:	March and September
XD date:	February and August
Launch date:	20 September 2021
Legal structure:	Non-UCITS Retail Scheme
Reporting date (annual):	31 July
Reporting date (interim):	31 January
Base currency:	Sterling
Valuation point:	12:00 midday daily
ISA eligible:	Yes
Ongoing charges figure (% p.a.)	
B Income	1.02%
Annual management charge (% p.a.)	
B Income	0.40%
Initial fee	0.00%
ISIN	
B Income	GB00BMCH5X09
SEDOL	
B Income	BMCH5X0

RISK WARNINGS

- **Past performance is not a guide to future returns.**
- **The value of investments and the income from them can fall as well as rise, and you may not get back the amount invested.**
- **For funds investing globally, currency exchange rate fluctuations may have a positive or negative impact on the value of your investments.**
- **Changes in interest rates will affect the value of, and the interest earned from, bonds held by the Fund. When interest rates rise, the capital value of the Fund is likely to fall and vice versa.**
- **Investment trusts can borrow money that can then be used to make further investments. In a rising market, this 'gearing' can enhance returns to shareholders. However, if the market falls, losses will be multiplied.**
- **The Fund does not use derivatives extensively, although it may use them in an attempt to reduce risk, reduce costs and to generate additional income. Investing in derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions. Derivatives may expose the Fund to credit risks of counterparties, who may not meet payment obligations. The use of derivatives may result in the Fund being leveraged (where economic exposure and thus the potential for loss by the Fund exceeds the amount it has invested), and in these market conditions the effect of leverage will magnify losses.**
- **This document is issued by Mattioli Woods plc and should be read in conjunction with the Fund's Simplified Prospectus. A list of risk factors is detailed in the Simplified Prospectus, and an investment should not be contemplated until the risks are considered fully. Current tax levels and relief are liable to change, and their value will depend on individual investors' circumstances. If you are unsure about any information contained within this document, you should take financial advice.**

Sources: FE Fundinfo