Fund performance update

The 12 months to 31 March 2023...

A quick summary

- High inflation and rising interest rates across the world persist.
- Global shares recover after a rough 2022. Bond markets remain down.
- A rocky month for banks towards the end of the period, due to the collapse of Silicon Valley Bank and Credit Suisse.

Inflation issues

Central banks continued to respond to multi-decade-high inflation levels in western economies by raising interest rates. The US Federal Reserve increased its key interest rate in March 2022 (its first rate hike since 2018). It followed this up with a series of increases, ending the 12 months at 5%, up from 0.25% a year earlier.

The Bank of England (BoE) Base Rate ended the period at 4.25%, with the rate of ascent over the year not seen since the late 1980s. However, UK annual inflation peaked at 11.1% in October and has since decreased to 10.1% (reported) in March 2023. This suggests that monetary policy measures are starting to work, but expectations of when and at what level interest rates will peak, have been frequently changing due to global factors including bank failures.

The European Central Bank kept its key interest rates unchanged at emergency low levels, before finally raising them by 0.50% in July. Further increases took rates to 3% by the end of the period. Inflation in the Euro zone rose to 10.6% in October but began to stabilise and fell to 6.9% in March 2023.

Higher energy prices have been a key reason for inflation and a major cause of the current cost-of-living crisis. Oil and gas prices started the period high in the wake of Russia's invasion of Ukraine due to partial bans on imports of the country's oil and coal. However, the price of oil and gas fell in the latter half of the period. This has been driven by the US Inflation Reduction Act and a milder winter than expected across Europe. The fall in price will eventually flow through to lower energy and fuel prices which will result in cheaper costs for the growing, manufacturing, transporting and selling of goods.

How did stock markets do?

It's been a turbulent time for global stock markets, which saw a 7% drop in the first half of the period. They recovered steadily over the rest of the period to end with a loss of 0.9% for the 12 months to end March. Investors have been unnerved by high inflation, surging energy prices and rising interest rates, bank failures and Russia's invasion of Ukraine. All of which added up to a worsening global economy. However, the UK stock market has shown some resilience, with a return of 3% over the period. It's home to many energy and mining companies and their share prices have benefitted from high commodity prices. The FTSE 100 broke through the 8,000 index level for the first time in February thanks to strong performance from oil and gas companies and also the banking sector. These sectors, which make up approximately 20% of the UK stock market, benefitted from higher commodity prices and interest rates.

The shock of the Ukraine war and its impact upon energy supplies added to investors' worries. Markets recovered slightly in the second half of 2022 and 2023 and enjoyed a strong January, buoyed by hopes that interest-rate rises were coming to an end as inflation eased. The collapse of Silicon Valley Bank, a US lender, and its potential impact upon the wider banking system, caused share prices to fall in early March 2023 before swiftly recovering as governments and larger banks stepped in.

In Asian markets, the biggest development was the Chinese government's decision to abandon its stringent zero-Covid approach in early December. The controversial policy had proved highly disruptive to the Chinese economy. Having struggled for most of 2022, Chinese share prices rebounded sharply as the economy reopened, and the wider Asia region also saw a partial stock market recovery. The Japanese stock market rose over the period and avoided the major falls experienced by most other developed stock markets in 2022.

Overall, emerging market shares fell just short of 5% after the effects of currency, despite a small gain (1.6%) from the largest Emerging Market, China. The Brazilian stock market fell by over 12% in the period, amidst political unrest during presidential elections in October.

Despite high energy prices and inflation (albeit coming down faster in the EU than other regions), European shares – like the UK – performed well over the 12-month period. They returned 4.6%, which was boosted to 8.6% for UK investors when considering the rise in the value of the euro versus sterling. Despite the ongoing conflict in Ukraine, stock markets in Europe and the UK have been remarkably resilient.

Inflation and rising rates hit bond markets

Global government bonds have had a challenging 12 months. After years of ultra-low interest rates, central bank rate rises (to combat inflation) caused a historic fall in global bond markets. The winding up of bond-buying stimulus programmes added to the downward pressure on bonds. The same inflationary and interest rate pressures also drove down corporate bonds. In the period investment grade (AAA-BBB) corporate bonds fell by over 10%.

Bond prices are particularly susceptible to rising interest rates, as it directly affects the relative value of the fixed income payments. Bonds have reacted not only to the interest rate rises that have already happened, but also to the expected future direction of rates. UK rates are expected to rise more slowly in 2023 compared to last year, now inflation has hopefully peaked and the economy teeters on the brink of recession/flat-lining. This has resulted in rising bond values towards the end of the period – particularly during the banking failures in March 2023.

UK government bonds (gilts) were also pushed down further by the new (and now ex) Chancellor's mini budget in late September. This announced unfunded tax cuts hot on the heels of the energy price guarantee. The actions of the government (in part forced by energy prices outside of their control) forced the BoE to start buying gilts again to prop up the market. The total return from UK gilts over the last 12 months was -10%. Whilst this figure is disappointing, this does show signs of improvement on previous reports where UK gilts had lost over 20% in a 12-month period. The recovery is due to interest rates tapering sooner than expected and lowering inflation.

Annual returns	March 2018 to March 2019	March 2019 to March 2020	March 2020 to March 2021	March 2021 to March 2022	March 2022 to March 2023	Returns from £10k investment: March 2018 to March 2023
Bond Fund	**3.9%**	**3.1%**	**0.0%**	**-5.5%**	**-11.2%**	**£8,987**
Benchmark*	4.6%	3.9%	0.7%	-5.0%	-10.7%	
Growth Fund 1**	**4.1%**	**-3.2%**	**12.5%**	**0.0%**	**-4.2%**	**£10,852**
Performance comparator*	5.6%	1.8%	11.7%	0.8%	-3.8%	
Growth Fund 2**	**6.3%**	**-6.8%**	**22.2%**	**4.5%**	**-3.2%**	**£12,238**
Performance comparator*	8.0%	-1.6%	23.0%	5.9%	-2.5%	
Virgin UK Index Tracker	**4.9%**	**-19.1%**	**26.5%**	**12.3%**	**2.4%**	**£12,345**
Benchmark*	6.4%	-18.5%	26.7%	13.0%	2.9%	
Virgin Global Share Fund	**2.9%**	**-12.6%**	**35.1%**	**3.5%**	**-1.9%**	**£12,328**
Benchmark*	4.7%	-11.8%	36.6%	4.7%	0.2%	
Virgin Climate Change Fund	**2.4%**	**-13.3%**	**39.7%**	**5.3%**	**-6.5%**	**£12,208**
Benchmark*	4.3%	-13.3%	34.5%	7.9%	-1.8%	

Source: Lipper, year on year, 31.03.18 to 31.03.23, bid to bid with net income reinvested.

Remember, past performance is not a reliable guide for the future. The value of your investment can go down as well as up and you may get less back than you invest. This is a medium to long-term investment so you should be prepared to invest your money for at least five years.

*A 'benchmark' is the stock market index (or 'indices' if more than one) that the fund tracks or, with our Climate Change Fund – tries to outperform. Where we have 'Performance comparator' – these funds don't use a benchmark as a guide for investing or as a target to beat. Instead, a performance comparator is used so you can see how the fund performs against a set of indices.

The fund benchmark/performance comparator doesn't include the cost of the ongoing charges, but our fund performance does.

You can find what indices we use for each benchmark/performance comparator in the fund's Key Investment Information Document on our website.

**The name and investment strategy changed in October 2021. The returns shown prior to October 2021 are simulated in line with the new investment strategy. We've calculated the return using index performance based on the current asset mix, less the annual fee, to simulate past performance. They aren't the actual returns of the fund at the time.

The **Bond Fund** invests predominantly in government bonds and investment grade corporate bonds.

- The fund ended this period -11.2% as bond prices fell over the 12 months due to rising interest rates and persistent inflation.
- Increasing interest rates and inflation make the fixed rates of income most bonds pay less attractive, pushing the price down. This, along with a weaker economic outlook increasing the risk of companies not paying the income, meant further downward pressure on bond prices.
- The Fund mainly invests in medium term bonds (5 to 15 years) across government and corporate bonds. By not investing in bonds that have a longer duration, the fund avoided the worst of the bond market volatility.
- Whilst prices have fallen, yields have risen (as a function of the income paid divided by the price). While it's been a tough year, most bonds now yield more than they did and, as a result, the outlook for future returns is better.
- Towards the end of the period, investor optimism regarding lower interest rates and inflation began to set in, which meant bonds regained some lost ground from earlier in the year.
- The Fund underwent a change in strategy and name in December 2022.
  - The Fund continues to invest in medium term bonds (5 to 15 years) across Government and Corporate Bonds but can now invest differently from the benchmark, rather than track it, which adds to the potential return.
  - The Fund now uses Environmental, Social and Governance (ESG) considerations in choosing which bonds to invest in. The fund no longer invests in the bonds of certain types of company, such as tobacco and unconventional fossil fuels (such as oil sands or fracking).
  - The investment policy was also updated to allow for investment in BBB rated bonds, these are riskier but do provide higher return potential than AAA to A rated bonds. These additional bonds are still classified as investment grade, so the risk of non-payment remains small.

Growth Fund 1

- The fund invests globally across both shares and bonds. It does this by investing in other funds, and is known as a 'fund-of-funds'. It adopts a relatively cautious approach, but does maintain at least 30% of your money in funds with a higher level of risk but greater potential returns (like shares). The rest is invested in funds with lower potential returns and levels of risk – such as corporate and government bonds.
- The fund's allocation to bonds (close to 60% of the fund) fell due to rising inflation forcing up interest rates, which push down bond prices. The abrdn Global Government Bond fell 6.5%, whilst the largest holding in the fund (close to 14%), the abrdn Global Corporate Bond Tracker was down 7%. On a more positive note, the shorter maturity bonds and cash within the fund (approx. 10% of the fund's assets), which are less sensitive to interest rate changes, helped to dampen losses from the longer maturity bonds.
- The allocation to shares within the fund generated mixed results, with gains from European and UK shares offset by losses from North America and Emerging Markets. Some of the other high risk/reward assets also had widely differing results, with emerging market bonds returning just over 10%, whilst the small allocation to global property companies fell 20%. Property companies have fallen in value due to their future rental income being discounted at a higher rate (reducing it's value in today's money) due to the rise in interest rates, notably in the US.
- The fund was down 4.2% for the period, after charges.

Growth Fund 2

- The fund invests globally across both shares and bonds. It does this by investing in other funds, and is known as a 'fund-of-funds'. It adopts a balanced approach to risk, but does always invest at least 60% of your money in funds with higher potential returns and levels of risk (like shares). The rest is invested in funds with lower risk and return potential – such as bonds.
- The fund's higher allocation to shares (compared to bonds) helped over the year, with bonds the most impacted by rising inflation and interest rates. Within the lower risk assets held by the fund, part of this was within cash and short-maturity bonds, which outperformed longer maturity bonds.
- As with Growth Fund 1, the allocation to shares generated mixed results, with gains from European and UK shares offset by losses from North America and Emerging Markets. The fund started the period with a 5% allocation to emerging market shares, which fell in value by just over 5%. Allocation to global property companies, which struggled in the rising interest rate environment, is a little higher in this fund compared to Growth Fund 2, and this also held back returns. In contrast, the abrdn European Equity Tracker returned +7.7%, a strong result considering the conflict within Ukraine.
- The fund was down 3.2% for the period, after charges.

The **UK Index Tracker** invests in over 500 of the UK's biggest companies.

- Compared to many markets, the UK stock market performed well, with a return of 2.9% (measured by the FTSE All Share) over the period. It's home to many energy and mining companies and their share prices have benefitted from high commodity prices. Oil and gas companies, which make up over 10% of the market, returned over 30% in the last 12 months. The materials sector returned +10%,and, while most other market sectors were negative, many of the largest UK companies have large overseas revenues. These were amplified when converted into GBP, which fell compared to most currencies over the 12 months.
- The fund ended the period at 2.4% after charges.

The **Global Share Fund** invests 25% in UK shares, the same in shares of companies in emerging markets (like China and India) and 50% in overseas shares from developed markets. For example, in Europe and the US.

- Developed stock markets had a tough year, with the Russian invasion of Ukraine and rising interest rates making it more expensive for companies to borrow money. The UK stock market performed better than most other developed markets. This was down to large UK-listed energy and commodities companies benefitting from a surge in commodities prices. Emerging markets also struggled during the period.
- Despite fairly sharp falls in the beginning of the period (for example, US stocks fell by 19% between Mar 2022 and June 2022), markets recovered as inflation expectation and interest rates tapered.
- The fund was down 1.9% for this period, after charges.

The **Climate Change Fund** invests in companies from around the world that develop or use products and services designed to maximise resource efficiency, support the transition to a low carbon economy and address wider environmental challenges.

- The Fund doesn't invest in fossil fuel companies, so didn't benefit from the rise in value of oil and gas companies, unlike the benchmark. The Fund was also dragged back by the wider inflationary and interest rate pressures, which impacted technology companies more than other sectors, where share price values are based more on future earnings.
- However, the Fund did benefit from the global drive to be more energy independent and sustainable following the start of the Ukraine-Russia conflict. Wind turbine manufacturers and sustainable energy companies both benefitted from this, as well as the US Inflation Reduction Act which saw increased investment in both sectors.
- The fund finished the 12 months at -6.5% after charges.
- We made a few changes to the Fund in July 2022:
  - **Going global** – the fund previously invested at least 80% in European companies. However, climate change is a worldwide issue and needs global solutions. The fund now looks for opportunities from around the world, investing in companies with climate change solutions and adopting best environmental practice. We're confident that investing across more countries will help deliver better returns in the future.
  - **Clearer investment policy** – the new investment policy is clearer on the types of companies we'll invest in, as well as those we won't. We will not invest in companies with material revenues from fossil fuels, tobacco or prohibited weapons. We will also only invest in organisations that are part of the UN Global Compact sustainability initiative. This focuses on human rights, labour, environment and anti-corruption principles.
  - **New benchmark** – the benchmark we measure performance against changed from MSCI Europe to MSCI All Countries World. This is in line with the new global approach.
  - **New Investment Adviser** – we've moved from MAN GLG to abrdn. They're experts in their field and do the right company-specific research to pick which shares the fund holds.
  - We firmly believe these changes will improve the environmental focus of the fund and deliver better investment results in the long term.

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