
KEYSTONE POSITIVE CHANGE INVESTMENT TRUST – MANAGER INSIGHTS

Kate Fox, co-manager of the Keystone Positive Change Investment Trust, gives an update on the portfolio and the outlook against the current economic backdrop.

As with any investment, capital is at risk.

This communication was produced and approved in January 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

For a Key Information Document for the Keystone Positive Change Investment Trust plc, please visit our website at www.baillieghifford.com

Introduction...

The Keystone Positive Change Investment Trust is a trust which has two objectives of equal importance:

- To invest in high-quality growth companies that we believe can deliver attractive investment returns to shareholders.
- And to contribute towards a more sustainable world for current and future generations by investing in companies whose products and services are providing solutions to global challenges.

We firmly believe that these two objectives are complimentary.

Reasons for Optimism

It might seem puzzling that after a 24-month period of underperformance, and against a backdrop of geopolitical unrest, the ongoing war in Europe, the rising cost of living and more visible evidence of climate change, that I would like to convey that the managers of the Trust remain committed to our objectives and optimistic. If anything, the more dismal the backdrop, the brighter the light shone on the need for change. Not only is there a need for change, but there is good reason to believe that change is afoot thanks to several areas of scientific and technological development. For example, we have a greater understanding of biology through advanced tools which will help us better understand, diagnose, treat and even prevent disease; or the rise of precision agricultural tools and techniques which will help us feed a growing population in a more sustainable way; on top of that there is the continuous growth of connectivity and provision of digital tools that increase access to education and financial services. The Trust invests in all of these trends through companies like Moderna, Deere and Duolingo.

What has the team been doing?



Volatility and uncertainty can be unsettling, and they can be distracting. I believe that our sense of purpose provided by our dual objectives provides us with an advantage in such an environment – I’d go as far as to say that our dual objectives provide a clear guiding light in times of chaos.

This means that against the worrying backdrop, we have remained focused on assessing the long-term opportunity for portfolio holdings and potential new candidates, rather than trying to estimate what interest rates might be next quarter. We are cognisant of a changing backdrop of tighter monetary policy and rising costs in the context of what these might mean for the long-term prospects of companies, but we’re more interested in thinking about the big structural and technological shifts that are driving positive change because we believe that this will be much more valuable in our search for great growth companies.

A combination of desk research and enjoying getting out and about again, travelling from Copenhagen to San Diego, from Rio to Tokyo, has helped us identify where the volatility is creating opportunities for our shareholders.

Updates to the portfolio

The first place to search for opportunities is in the existing portfolio, where has there been a dislocation between market sentiment – or share price movements – and the fundamental prospects of the companies that we own? A good example of this is MercadoLibre, Latin America’s largest ecommerce provider and emerging fintech leader. Despite growing revenues by over 70 per cent per annum in 2020 and 2021 and its competitive position strengthening, its share price fell sharply. We saw this as an opportunity to add to the fund’s position.

We’ve also added some new names to the portfolio such as Duolingo, the online language app which is broadening out its service offering to include literacy and maths. This is a company that is lowering the barriers to access education tools, while also having a great opportunity to grow its earnings through expanding its user base and increasing the rate of paying users. Remitly, the mobile-based remittance business, is another new addition to the portfolio. Remitly’s share price has declined by around 70 per cent since our initial work at the time of the initial public offering, in stark contrast to its operational progress, so we decided to take a position. Remitly’s products allow migrants to transfer money from high-income countries back to their families in low/middle-income countries. Remittances play an important role in socio-economic development and Remitly, as a leading provider of mobile-based services, has been gaining share in this important, large, and growing market. We are excited about its prospects to grow revenues, become profitable, and help many people in doing so.

A feature of the investment trust which excites us is its ability to invest in private companies. We’ve taken a new holding in Climeworks, a Swiss business that has developed direct air capture technology that helps remove CO2 from the atmosphere. If we are to avoid a climate catastrophe, carbon removal solutions like this will be needed to compliment the drastic reductions in emissions that are needed.

We don’t expect to get all our calls right and we haven’t. So, following reviews and engagement with companies such as Beyond Meat and Alibaba, we have decided to move on and sold our positions. While we still believe in the long-term opportunity for plant-based proteins, Beyond Meat made some operational missteps and the competitive advantage proved to be weaker than we hypothesised. For Alibaba, the reasons for selling were based on our impact objective. Following changes to the regulatory and competitive environment and what we learnt about the company’s business practices, we believe the probability of it contributing towards more inclusive economic development in China is lower than we had originally thought.



The team has been delighted to publish Keystone’s first impact report. This annual document illustrates investee companies’ progress toward addressing some of the world’s most pressing challenges. You can download a copy from the Keystone Positive Change website.

Outlook

We remain resolutely long term in our outlook, optimistic in our mindset, and committed to driving positive change. The team has a robust pipeline of themes and companies to research over the coming months and years, ranging from carbon capture technologies; to increasing access to healthcare in emerging markets; from companies helping us move from a linear to a circular model; to companies that might be able to help smallholder farmers in emerging markets.

The previous 250 years or so have seen great progress through the industrial and digital revolutions; but these have created problems for people and planet – climate change, biodiversity loss and rising inequalities. Addressing these problems is the right thing to do; it also provides a tremendous growth opportunity. Maybe the next 250 years will be the Sustainability Revolution – and the Keystone Positive Change shareholders can play a part in that.

Annual Past Performance to 30 December Each Year (Net %)

	2018	2019	2020	2021	2022
Keystone Positive Change Investment Trust plc	-13.4	23.3	-0.8	-4.8	-33.5
MSCI ACWI Index*	-9.5	19.2	-9.8	17.5	-7.6

Source: Morningstar, MSCI, total return in sterling.

* Changed from FTSE All Share Index on 10/02/2021, data chain-linked from this date to form a single index.

Past performance is not a guide to future returns.

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The trust has a significant investment in private companies. The trust’s risk could be increased as these assets may be more difficult to sell, so not changes in their prices may be greater.

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