Fund performance update

This commentary covers the 12 months to 30 September 2021

During the reporting period, share markets rebounded strongly following the COVID-19 related falls of Q1 2020, but bonds struggle due to fears over rising interest rates.

The 12-month period continued to be dominated by COVID-19. While lockdowns and restrictions were gradually eased in most regions (and vaccination programmes were well underway), more transmissible variants of the virus were being identified. Since the start of the pandemic, government and central bank support has underpinned many global economies and, as economic data showed signs of improvement, investors began to question when that support would end. At the same time, global goods shortages, increased consumer demand and massive government spending led to rising inflation. In turn, this has led to concerns that interest rates are likely to rise, which has negatively impacted bond prices. However, that same improving economic data has boosted sentiment for a strong global economic recovery, with many regions increasing their economic growth forecasts. This has helped equities show strong performance for the 12 months.

Optimism for an economic recovery, with some hurdles towards the end of the period:

Although the pandemic continued to put a strain on economies around the world, many markets continued to be supported by their government. In addition, the rollout of vaccination programmes enabled many businesses to reopen – this led to generally better than expected news and economic results during this time, and was a particular benefit to the Travel and Leisure sectors.

The outlook for overall economic growth in 2021 was also generally positive, with the passing of a US $1.9 trillion stimulus package in the US boosting global sentiment for an economic recovery. For example, the Organisation for Economic Co-operation and Development (OECD) forecasted that the UK economy would grow by 7.2% in 2021 – its fastest rate since 1941. The World Bank projected that China's economy would grow by 8.5%. Additionally, although the Eurozone experienced falling economic growth for the first quarter of 2021 due to vaccination delays and extended lockdowns, the European Commission upgraded its growth forecast for the year from 3.7% to 4.2%.

Oil prices continued their rise from their low of less than $20 a barrel in 2020, ending this 12-month period back up above $75. This helped the recovery of oil producing countries and the companies involved in the industry.

Towards the end of the period, global supply chain issues, rising raw materials and energy costs, along with concerns about when governments would start to ease/end economic support, did knock investor confidence.

The UK:

Throughout May, sentiment continued to improve in the UK and globally, as positive economic data releases showed increased consumer spending and better employment figures. Retail spending was particularly strong: retail sales grew by 9.2% month on month for April, with clothing sales rising by almost 70% from March.

Momentum took a brief pause in June when the UK Government postponed lifting social restrictions until at least 19 July, as the Delta variant of COVID-19 led to an increase in case numbers. Despite this, UK equities still rose, buoyed by the vaccination programme hitting a major milestone in the middle of the month, with all UK adults having been offered at least one dose.

In July, almost all restrictions were lifted. Delta variant infections weighed slightly on UK equities, although case numbers and hospitalisations fell towards the end of the month and brought hopes that vaccines will remain effective against new variants.

Positive company earnings, the further easing of restrictions and upbeat comments from central bank policymakers boosted equities in August.

Towards the end of the period, a combination of increased self-isolation alerts, global supply chain issues and Brexit-related staff shortages, all had a negative impact on UK equities. Compounding this, energy prices began to spiral. The UK Government also announced plans to raise national insurance to cover health and social care.

The Bank of England (BoE) held interest rates at 0.1% throughout the period. This was despite rising inflation (which reached 3.2% in August) and, while most central bankers continue to believe that the increase is temporary, they have conceded that higher inflation is likely to last longer than first anticipated.

Outside of the UK:

Overall, the US stock market performed well during this time and reached all-time highs as it rebounded from the impacts of COVID-19. Markets were also buoyed by a calmer geopolitical outlook with newly elected Joe Biden as president. Since taking office, the new president has already unveiled three stimulus packages, totalling almost $5 trillion, as well as a $6 trillion 2022 federal budget. The US vaccination programme progressed quickly, with over 344 million doses administered by the end of July, while the US manufacturing sector continued to grow too.

European shares generally grew, despite rising COVID-19 cases and initially slow rollouts of vaccination programmes. The expansion of the European Central Bank's stimulus programme by €500 billion and the eventual quicker rollout of vaccination programmes, supported European markets, helped lead to improved economic growth forecasts. Asia-Pacific stock market performance was positive although mixed during this time. After the negative impacts of COVID-19 and the generally slow rollout of vaccines, there was a positive reaction to US stimulus plans which boosted Asian shares – as did an improving economic growth outlook and a historically weak US dollar. However, concerns about rising cases of COVID-19 towards the end of the period, led to actions such as the return of lockdowns in China, which meant that Japan significantly outperformed China.

Emerging markets generally performed very strongly for the 12 months overall. Both the Russian and Indian stock markets saw more than 50% growth for the 12 months, despite India enduring a second wave of COVID-19 cases that overwhelmed its healthcare systems in May. Strong performance was driven by significantly higher oil prices and a weaker US dollar (most emerging markets borrow in dollars and therefore a weaker dollar makes it easier for them to manage their debt).

Demand for bonds fell during the period:

Bonds had an up and down 12 months, but finished the period down overall. The first half of the period saw bonds perform largely positively, as fears of a recession created demand for lower risk assets.

However, rising optimism about vaccines and improving economic data and growth forecasts, switched demand away from bonds to higher risk assets. In addition, rising inflation and the potential for interest rates rises[1] to combat that, led to a further drop in demand for bonds.

Due to their lower sensitivity to changing interest rates, corporate bonds outperformed government bonds and higher yield bonds outperformed lower yield bonds.

[1]Rising interest rates pushes down the prices of bonds that pay a fixed rate of interest when first issued, specially lower yielding bonds.

Annual returns					Returns from £10k investment
September 2016 to September 2017	September 2017 to September 2018	September 2018 to September 2019	September 2019 to September 2020	September 2020 to September 2021	September 2016 to September 2021
Bond and Gilt Fund					
-2.9%	**-0.5%**	**8.9%**	**2.4%**	**-4.0%**	**£10,332**
Benchmark*					
-1.2%	-0.3%	9.9%	3.1%	-3.4%	
Growth Fund 1 (previously known as Bond, Gilt and UK Share Fund)					
3.5%	**1.9%**	**6.9%**	**0.1%**	**6.2%**	**£11,973**
Performance comparator*					
3.6%	3.5%	8.7%	4.3%	5.9%	
Growth Fund 2 (previously known as 2 Bond, Gilt, UK and Overseas Share Fund)					
7.8%	**5.3%**	**6.9%**	**-0.8%**	**12.9%**	**£13,579**
Performance comparator*					
8.6%	7.7%	8.5%	5.1%	12.9%	
Virgin UK Index Tracking Trust					
10.9%	**4.9%**	**1.9%**	**-17.1%**	**27.3%**	**£12,510**
Benchmark*					
11.9%	5.9%	2.7%	-16.6%	27.9%	
Global Share Fund					
12.8%	**5.9%**	**3.0%**	**-2.7%**	**19.3%**	**£14,279**
Benchmark*					
15.6%	7.5%	4.3%	-1.6%	21.3%	
Climate Change Fund					
16.5%	**5.4%**	**-0.2%**	**6.1%**	**18.6%**	**£15,407**
Benchmark**					
17.7%	2.0%	5.1%	-7.3%	26.9%	

Source: Lipper, year on year, 30.09.16 to 30.09.21, bid to bid with net income reinvested.

Remember, past performance is not a reliable guide to the future. The value of your investment can go down as well as up, and you may get back less 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.

*The benchmark is the stock market index (or 'indices' if more than one) that the fund tracks. The fund benchmark doesn't include the cost of the ongoing charges, but our fund performance does. The index/indices which make up the benchmark are as follows:

Bond and Gilt Fund consists of 50% the FTSE 5-15 Year Gilt Index and 50% the Bank of America Merrill Lynch 5-15 year AAA-A Non Gilt Index.

For this reporting period **Bond, Gilt and UK Share Fund** was invested as per the old strategy of the Fund which consisted of 50% FTSE All Share index, 18.5% Bloomberg Barclays UK Gilt Index, 13% Bloomberg Barclays UK Gilt 1-5 year index, 9.25% FTSE 5-15 year Gilt Index and 9.25% Bank of Merrill Lynch 5-15 year AAA-A Non gilt index.

From 15 October 2021 this fund was renamed **Growth Fund 1**. The fund also has a new diversified global strategy, with a cautious approach to risk and return. To see how the new strategy would have performed, and how the Fund is now invested, please visit the fund's web page on virginmoney.com.

For this reporting period the **Bond, Gilt, UK and Overseas Share Fund** consisted of 50% FTSE All-Share Index, 6.5% FTSE World North America Index, 6.5% FTSE All World Developed Europe ex UK Index, 6% FTSE Japan Index, 6% FTSE All World Developed Asia Pacific ex Japan Index, 6.5% Bloomberg Barclays UK Gilt Index, 9.25% FTSE 5-15 Year Gilt Index, and 9.25% Bank of America Merrill Lynch 5-15 Year AAA-A Non-Gilt Index.

From 15 October 2021 this fund was renamed **Growth Fund 2**. The fund also has a new diversified global strategy, with a balanced approach to risk and return. To see how the new strategy would have performed, and how the Fund is now invested, please visit the fund's web page on virginmoney.com.

Index Tracking Trust/FTSE consists of 100% FTSE All-Share Index.

Global Share Fund consists of 25% FTSE All-Share Index, 12.5% FTSE World North America Index, 12.5% FTSE All World Developed Europe ex UK Index, 12.5% FTSE Japan Index, 12.5% FTSE All World Developed Asia Pacific ex Japan Index, and 25% MSCI Emerging Markets Index.

The benchmark is the stock market index that the **Climate Change Fund tries to outperform and consists of the MSCI Europe Index.

Fund performance update – 12 months to 30 September 2021

The unit price of the Virgin Money funds that invest in stock markets went up, as equity markets continued their recovery from COVID-19 impacts and investors moved to riskier assets. The unit price of our fund that invests only in bonds and gilts, however, went down for the period. This was largely due to increasing expectations that interest rates will rise to combat rising inflation.

The **Bond and Gilt Fund** invests in UK government bonds (known as gilts) and high quality UK corporate bonds. Government bonds and corporate bonds performed positively for much of the first half of the period, with demand remaining strong. However, from the first quarter of 2021, bonds and gilts fell in value due to rising inflation expectations and what that means for future interest rates (rising interest rates pushes down the prices of bonds that pay a fixed rate of interest when first issued) as well as an increase in demand for riskier assets.

The **Growth Fund 1 (previously known as Bond, Gilt and UK Share Fund)** performance for the 12-month period was 6.2%. This was using the old strategy of a 50/50 blend of UK shares and high quality Sterling denominated bonds. The positive return during the period came from UK shares, with the bond component falling slightly. Soon after the period, on 15 October, the fund changed strategy and also name. This fund now invests globally and across more asset types, which we believe will generate better returns for the same or less risk compared to the previous strategy. The fund adopts a relatively cautious approach but with at least 30% of your money invested in funds with higher potential returns but with higher level of risk (like shares). The rest is invested in funds with lower potential returns, but with a lower level of risk (like corporate and government bonds).

The **Growth Fund 2 (previously known as Bond, Gilt, UK and Overseas Share Fund)** performance for the 12 months was 12.9%. This was using the old strategy of a 75/25 blend of shares (UK and overseas) and high quality Sterling denominated bonds. The positive return during the period came from the shares within the fund, with the bond component falling slightly. Soon after the period, on 15 October, the fund changed strategy and also name. This fund now invests globally and across more asset types. The fund adopts a balanced approach to risk and return but will always keep at least 60% of your money invested in funds with higher potential returns but with higher level of risk (like shares and higher yielding bonds). The rest is invested in funds with lower potential returns, but with a lower level of risk (like high quality corporate and government bonds).

The **UK FTSE All-Share Fund** invests in 600+ of the largest companies in the UK. After a weak start to the 12 months – due to the impact of COVID-19 with lockdowns and other restrictions causing concerns that many economies may enter a deep recession – UK equities performed strongly for much of the rest of the period. This was due to improving economic data, improving global growth forecasts and, overall, a much more positive picture regarding COVID-19 (including the successful rollout of the UK's vaccination programme). The energy sector (about 8% of the All Share Index) was the stand out performer over the period, fueled by the strong recovery in the oil price (which near doubled over the 12 months from just below $40 to $78) benefiting the likes of BP (up 50% over the year) and Royal Dutch Shell (up near 75%). Overall, the fund finished the period up 27.3%.

The **Global Share Fund** invests 25% in UK shares, 25% in shares of companies in emerging markets (such as China and India) and 50% in overseas shares. After a weak start to the 12 months – due to the impact of COVID-19 with lockdowns and other restrictions causing concerns that many economies may enter a deep recession – global equities performed strongly for much of the rest of the period. Emerging market equities performed particularly well during the period, driven by significantly higher oil prices and a weaker US dollar (most emerging markets borrow in dollars and, therefore, a weaker dollar makes it easier for them to manage their debt). Overall, the fund finished the period up 19.3% for the 12 months.

The **Climate Change Fund** is actively managed and invests in companies with lower-than-average carbon footprints, and companies leading the way in developing and adopting green technologies. Much like our other equity funds, after a weak start to the 12 months due to the impact of COVID-19 – with lockdowns and other restrictions causing concerns that many economies may enter a deep recession – global equities, including Europe where the fund invests 80% plus of its assets, performed strongly for much of the rest of the period. The fund retains a balanced approach in terms of weightings towards more defensive and cyclical stocks, concentrating, as ever, on sustainability and investing in those companies promoting the transition to cleaner energy, providing "green" infrastructure, and delivering ESG-focused. The fund returned 18.6% for the 12 month period.

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