

EdenTree Green Future Fund

Q1 2024 Commentary



PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	5.1%	12.7%	9.7%	12.7%
MSCI ACWI Net TR GBP**	9.2%	16.7%	22.1%	26.3%
IA Global	7.9%	15.3%	16.8%	17.0%
Sector Quartile	4	3	4	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

Over the first quarter of 2024, global equities continued to rally with the MSCI ACWI Index delivering a total return of 9.2% in sterling terms. This strong performance was somewhat misaligned with the increasing expectation that central banks are likely to delay interest rate cuts following better-than-expected economic data during the quarter, especially in the US. While strong economic data reduced the likelihood of rate cuts, it has increased the probability of the soft landing sought by central banks. In a similar fashion to 2023, where the market's performance was driven by the returns of the "Magnificent Seven", a narrow list of just four mega-cap US stocks, the "Fab Four" of Nvidia (84.1%), Meta (38.5%), Amazon (19.8%) and Microsoft (13.7%), were key drivers of the market's return during the quarter.

In a momentum-driven market, technology continued to lead sector performance (+13.1%) driven by excitement around AI, while defensive sectors, such as Real Estate (0.0%) and Utilities (+2.4%), lagged the wider index. The technology-heavy US indices outperformed other regions, while the staples-heavy UK market and Asia ex-Japan equities (which are exposed to a slowing Chinese economy) underperformed.

PERFORMANCE & ACTIVITY

The EdenTree Green Future Fund returned 5.1% over the first quarter of 2024, underperforming both the MSCI ACWI Net TR Index and IA Global peer group. A feature of this underperformance was related to the lack of direct exposure to the strongly-performing areas of the markets, as these companies are not considered to be producing material environmental solutions. While this was disappointing in the short term, it does not change our long-term investment focus. The Fund retains its breadth and diversification across multiple themes, sectors and geographies meaning it generally continues to perform against more concentrated peers in the environmental and climate solutions space.

The Fund was positively impacted by its allocation to Energy Efficiency, with holdings such as Applied Materials, Acuity Brands, Regal Rexnord and Schneider Electric performing strongly after delivering solid quarterly results and updates. Another green investment that performed well was the Water space, here companies such as Pentair and Advanced Drainage contributed well to the portfolio and continued to highlight the continued focus on Water as a theme but equally highlighted the impact of current and future US infrastructure spending regulation. Finally, the Fund's holding DS Smith received a potential takeover bid from Mondi and International Paper. While the final outcome is still unclear, the interest in such business models remains and the impact for the portfolio was positive.

Offsetting these strongly contributing themes was performance in Alternative Energy and Future Mobility, with holdings such as Harmony Energy, SSE and NextEnergy Solar detracting from overall returns. Persistent higher interests and inflationary concerns have seen the discount in the UK renewables sector continue to widen despite a number of companies having a considerable amount of inflation-linked revenue protection. When interest rates start to fall this is potentially a sector which could benefit since they are naturally sensitive to that.

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In terms of investment activity, we have undertaken a number of changes in the portfolio during Q1 2024. We sold positions in Mobico (Future Mobility), SolarEdge (Alternative Energy) and Ansys (Energy Efficiency). At the same time, we added new positions to the portfolio, including Cadence Design Systems (Energy Efficiency) and Miura (Energy Efficiency)

OUTLOOK

As we move into Q2 2024 and beyond, the key feature of the market focus should remain unchanged, namely the pace and extent of interest rate changes, most significantly in the US. US underlying data now suggests that while there is scope for interest rate reductions, the quantum and timing are shifting towards the second half of 2024. The underlying impact of this will likely be a dampening effect on the mid- and small-capitalisation orientation of the Fund. Until this lifts the scope for upward revaluations remains more challenging in the short term despite continued earnings growth in many companies.

Geopolitics and the ever-increasing volatility of the Middle East and the wider risks extending from the Gaza conflict and the continued persistent war in the Ukraine remain concerning but, after the initial shocks, these have had a limited impact of extending into the wider economies, which is perhaps complacent.

2024's busy election cycle could produce some meaningful changes to the political landscape, with some 3bn people going to the polls. Key elections occurring in the EU in June, and the US and UK later in the year could unfortunately see climate and other environmental policy being a politicised battleground in each of these regions. In the short term, this could be distracting, but it doesn't ultimately change the longer-term necessity to tackle what is increasingly a large number of environmental and associated social challenges, with companies providing solutions and creating positive impact.

Finally, 2024 will also signal regulatory changes in the UK regarding the Sustainable Disclosure Regulation (SDR). We will continue to review the impact and related labelling but believe, over the long term, this is a positive for the wider investment industry and will provide greater clarity for investors in the Fund. The EdenTree Green Future Fund will be seeking to have an active position and label. We will seek to communicate with investors what this will be and when during 2024.

The portfolio, as ever, remains well diversified and pursues a broad range of solutions which are at the forefront of the green revolution. We manage the Fund with a clear eye to company and management quality, as well as valuation, through an investment approach we call: "green at a reasonable price".

PERFORMANCE DISCRETE	12 Months to	12 Months to	12 Months to	12 Months to	12 Months to
	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Fund (B Class)				0.9%	9.7%
MSCI ACWI Net TR GBP**				-0.7%	22.1%
IA Global				-2.8%	16.8%
Sector Quartile				1	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

Past performance is not necessarily a guide to future returns.

*Inception: 24 Jan 2022

**The MSCI ACWI GBP Net Total Return Index was adopted as the Fund's comparative benchmark on 1 January 2024, replacing the FTSE World TR GBP. As the Fund invests globally in companies whose products address environmental and sustainability challenges, we compare the Fund's performance to the MSCI ACWI GBP Net Total Return Index. The portfolio manager is, however, not bound or influenced by the index when making investment decisions and the fund's holdings may deviate from the benchmark's constituents.

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