Green Future Fund

Q4 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund Performance (B Class)	7.3%	4.2%	10.5%	7.3%
FTSE World TR GBP	6.9%	7.6%	17.2%	15.7%
IA Global	6.9%	5.7%	12.7%	8.4%
Sector Quartile	2	3	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. *Inception: 24 Jan 2022

MARKET REVIEW

Global equities performed strongly in the final quarter of 2023, with the FTSE World TR Index returning 6.9%. Sentiment was buoyed by the prospect of looser monetary policy in the US next year, with the US Federal Reserve signalling up to three interest rate cuts following its policy meeting in December. Bond markets rallied strongly, while a return to a risk-on attitude towards equities generally favoured smaller and mid-sized companies, areas of the market that had struggled to make headway during the year. Bourses in the US and Europe generally outperformed the UK, Japan and Emerging Markets. Market indices in Hong Kong and China were notably weak. Technology, Real Estate, Industrials and Financials were strong, while Energy, as well as defensive sectors such as Healthcare and Consumer Staples, lagged.

In terms of the green revolution, the COP28 climate summit in the United Arab Emirates (UAE) was the key event during the quarter. Sultan al-Jaber, who is chair of the Abu Dhabi National Oil Company (Adnoc), was widely seen as a controversial choice for conference president, and we generally agree with the LSE's assessment of the conference being "historic, but inadequate"[i]. Agreement on the Loss and Damage Fund, the inclusion of much-overdue wording about the need to transition away from fossil fuels, and the pledge to triple installed renewable energy capacity by 2030 were welcome steps. However, as has been the case with many preceding COPs, the final agreement – the UAE Consensus – was largely about signalling rather than implementing plans and lacked accountability. As indicated by the global stocktake leading up to the conference, there is still a great deal of work to be done to bridge the gap between the current policy (and indeed investment) trajectory and what is required to keep the 1.5C goal alive.

PERFORMANCE & ACTIVITY

The EdenTree Green Future Fund returned 7.3% over the final quarter of 2023, outperforming both the FTSE World TR Index and IA Global peer group. This strong performance helped the Fund to end the year with a total return of 10.5%, but this underperformed both the FTSE World TR Index and IA Global peer group. That said, the Fund's breadth and diversification across themes, sectors and geographies meant it generally performed well against more concentrated peers in the environmental and climate solutions space.

The Fund was positively impacted by its allocation to Environmental Services, with holdings such as Stantec and Federal Signal performing strongly after delivering solid quarterly results, which broadly demonstrated resilient levels of growth in challenging operating conditions. Within the same group, the Fund's holdings in design and automation software leaders ANSYS and Altair Engineering contributed strongly, fuelled by their broad multiple expansion across the segment, as robust earnings results and abating market concerns on further rate hikes supported valuations. Additionally, in the latter stages of the period, ANSYS became the subject of M&A speculation, driving the share price materially higher.

The Energy Efficiency segment also strongly outperformed as companies across the industrial and buildings efficiency space such as Schneider Electric, A.O. Smith and Volution Group reported resilient quarterly earnings and highlighted supportive demand backdrops. This offset softer performance in Future Mobility and Alternative Energy, with holdings such as Aptiv and SolarEdge Technologies de-rating amid concerns of a weaker demand environment for their associated technologies over the near term. Elsewhere, Circular Economy holdings such as Clean Harbors, Daiseki and Veolia Environnement relatively underperformed following solid outperformance in the prior quarter. This was due in part to some investor profit-taking across the waste management sector after a sustained period of strong outperformance through a large portion of 2023.

In terms of investment activity, following a constructive research trip to the United States, during which we met with the management teams of a number of the Fund's existing holdings, we added to positions in Clean Harbors (Circular Economy), IDEX (Energy Efficiency), MSA Safety (Environmental Services) and Xylem (Water Management).

OUTLOOK

Several well-known factors will play out in unknown ways in the year ahead. The first of these is the Federal Reserve's "dovish pivot", which has led to both an uplift in market prices and an increased appetite for longer-duration assets. It is notable that some of the more effusive gains seen in December have since been given up. Monetary policy decisions in the UK and Europe will also be watched closely, given they are likely to be behind those of the US and will be set against a backdrop of relatively weaker economies. Geopolitics, of course, will remain a key factor with the potential to ignite bouts of volatility, particularly the risk that the Gaza conflict could expand to other areas of the Middle East. The election cycle could also produce some meaningful changes in the political landscape, with key elections occurring in the EU in June, and the US and UK later in the year, with climate policy likely be a key battleground for each. However, of greater immediate concern is the risk of disinformation and interference. Indeed, the World Economic Forum's (WEF) recently released Global Risks Perception Survey for 2023-24 highlighted misinformation and disinformation as the most extreme short-term risk, at a time when some three billion people worldwide will go to the polls[ii]. Lastly, as a further factor to watch, AI will continue to gain prominence across business, investment and policy, with the market likely to remain laser-focused on key AI enablers and beneficiaries, albeit with an eye to the risks of misplaced expectations and mispricing often associated with rapid advances in technology.

Of course, the Fund itself is invested in themes that extend well beyond the next 12 months (as is indeed the case for EdenTree's fund range overall) and we would highlight two important trends in that regard. The first is that four of the top five long-term risks captured by the WEF's risk report (i.e. those extending out to 10 years) are firmly related to the environment, including climate change, biodiversity/ecosystems and natural resource scarcity, which suggests to us that the climate agenda will remain a key priority for business leaders regardless of election results. This is unsurprising given we have seen yet another year of global record temperatures and extreme weather. The second important trend is the rapid acceleration in installed renewable energy capacity globally seen in 2023, with China continuing to take the lead. According to data from the International Energy Agency, global renewable energy capacity increased by 50% in 2023 to 510 gigawatts (GW) – yet another record growth rate. China saw a 66% increase in wind power and commissioned the same level of solar as adopted by the rest of the world in 2022.[iii] Despite the rapid pace of installation, the IEA suggests that 21% higher growth will be required to meet the COP28 target of tripling installed capacity by 2030 (i.e. to 11,000GW). Moreover, the IEA highlighted further hurdles that would need to be addressed to meet that goal, many of which we've written about as a team here at EdenTree, including improvements to grid infrastructure, reduced administrative barriers and increased capital investment, especially in developing economies. Nevertheless, the new sense of ambition is highly supportive of a faster green transition.

As a final reflection on the year ahead, we would highlight that the re-election of Donald Trump in November should result in relatively little disruption to the domestic energy transition and the policies set out in the Inflation Reduction Act (IRA) given the fact that Republican states are generally the largest adopters of renewable energy in the US, with some 80% of IRA subsidies supporting clean technology in those states.

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 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund Performance (B Class)					10.5%
FTSE World TR GBP					17.2%
IA Global					12.7%
Sector Quartile					3

Past performance is not necessarily a guide to future returns.

[i] https://www.lse.ac.uk/granthaminstitute/news/cop28-the-irresistible-rise-of-the-just-transition/

[ii] https://www.weforum.org/publications/global-risks-report-2024/digest/

[iii] https://iea.blob.core.windows.net/assets/3f7f2c25-5b6f-4f3c-a1c0-71085bac5383/Renewables_2023.pdf

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**