EdenTree R&S Multi-Asset Growth

Q4 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years
Fund (B Class)	-2.0%	1.0%	4.5%	-1.8%
IA Mixed Investment 40-85% Shares*	1.2%	2.8%	8.9%	5.8%
Sector Quartile	4	4	4	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Data as at 31.12.2024

MARKET REVIEW

The Final quarter of the year was a mixed event for global equities. The FTSE All-World Index's return of 6.40% in sterling terms masked the significant currency appreciation of the US dollar, with the Index declining by 0.61% for the period in local currency terms. This outcome also disguises another period of US exceptionalism, with the S&P 500 extending its gains for the year, whereas many other regions posted declines. This shouldn't be a surprise given the US election dominated market sentiment over the period, with the re-election of Donald Trump in early November being well received by the domestic market even though some of his policies – such as tariffs and immigration – are feared to be inflationary. Politics was also dominant in Europe, amplifying market turbulence. France's new Prime Minister was overthrown after just three months due to his attempt to push through a revised budget; the country's fourth Prime Minister in one year was appointed in late December, but a significant question remains over whether his government will be able to operate effectively. Meanwhile, the German Chancellor lost a confidence vote in December, paving the way for an early election in February.

Concerns that central banks – notably the US Federal Reserve – were likely to slow the pace of expected interest rate cuts in 2025 also sparked market jitters, even though many of the major central banks cut interest rates during the period. In terms of market activity, large caps extended their outperformance for the year, as did growth over value stocks.

In terms of individual market performance, in the US, the S&P 500 Index and the NASDAQ soared 9.61% and 13.86% in sterling terms but, in local currency terms, their respective returns were 2.39% and 6.36%. In Europe, the FTSE World Europe Index ex UK declined by 3.86% in sterling terms, while the FTSE All-Share fell a modest 0.35%. Japan's Topix 2.53% rise in sterling terms was eclipsed by its 5.38% advance in local currency terms. Emerging market indices were also lacklustre, the MSCI Emerging Market Index dropped 1.36% in sterling terms (-7.85% in local currency) and while the China-related indices – the Shanghai Shenzhen and Hang Seng – were positive in sterling terms, adding 1.17% and 1.85%, their local currency returns were down (-1.72% and -4.88% respectively). Meanwhile, growth and quality investment styles again outperformed value on a global basis.

Amid concern over a slower pace of interest rate cuts and worries about the growing government debt of major nations, it was a challenging quarter for global bond markets. In the US, 10-year government bond yield ended the period at 4.6%, while the German 10-year government bond yield ended at 2.43%.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund declined during the quarter, returning -2.0% in absolute terms and underperforming its IA Mixed Investment 40-85% Shares benchmark, which returned 1.2%.

In terms of the Fund's overall equity performance, its tilt towards value and lack of exposure to some of the large-cap names driving gains, reflecting concerns about high valuations, proved to be detrimental to performance over the quarter, particularly the Fund's underweight US exposure where the "Magnificent 7" stocks outperformed. The portfolio's lack of exposure to the oil & gas sector, due to its responsible and sustainable principles, was also a negative as a rise in the price of oil positively impacted the sector.

The Fund's exposure to small-cap UK equities, through its holding in EdenTree's R&S UK Equity Opportunities Fund, was the strongest contributor over the quarter. Here the Fund benefitted from strong merger and acquisition activity. The UK market also outperformed European markets, even if it failed to keep up with US gains. Conversely, the Fund's European equities exposure, through its holding in EdenTree's R&S European Equity Fund, detracted from performance. From a sector perspective, the portfolio's capital goods holdings weighed on performance as the sector was negatively impacted by concerns over a cyclical slowdown. The technology holdings also bucked the sector's wider outperformance and the overweight exposure to financials was mixed; insurance and reinsurance holdings performed well, while banks lost ground as the lower trajectory for interest rates is likely to impact the industry's profitability.

The Fund maintains a modest underweight fixed income versus equities allocation, which provided some ballast over the quarter as bond yields generally rose amid concerns that persistent inflation would slow the pace of interest rate cuts. .

Concerns about a weakening of environmental policies following Donald Trump's re-election negatively impacted the Fund's infrastructure exposure, held via the EdenTree Green Infrastructure Fund, while rising bond yields and a weakening of the general economic environment weighed on the Fund's real estate exposure, which is held through a mix of UK and overseas REITs.

OUTLOOK

Looking ahead, we are at an interesting point in time while we await President Trump's inauguration and clearer signals about his policy intentions, gauging concerns that inflation will rise on the back of tariffs and tighter immigration policies, as well as how the US's fiscal position will be impacted. As a result, markets – including the US in more recent weeks – are understandably, and justifiably, pricing in a high degree of political and fiscal uncertainty. Also factoring in a generally slow global economic outlook, a slowing down in the pace of interest rate cuts and very high valuations among the market-influencing large-cap growth stocks, a greater level of volatility should be anticipated across the main asset classes.

Tactical Asset Allocation**

From an asset allocation perspective, we remain slightly overweight equities versus fixed income as we are mindful that inflationary pressures may soon be reawakened. The Fund retains its overweight value position as we still see value as being the most attractive area of the market right now. The valuation gap between growth and value remains very wide and we see plenty of opportunities among quality value companies at attractive valuation levels. Whereas when we look at the growth market, we find that valuations are very stretched. The Fund also retains its overweight exposure to the UK market, which we feel is attractively valued and offers some interesting global exposure.

Within the Fund's fixed income component, we continue to hold an overweight long-duration position. With bond yields having moved higher, we feel that upcoming inflationary pressures are now priced in and, while the pace of central bank interest rate cuts may slow, they are still sending out fairly dovish signals. However, we remain underweight credit as we feel higher for longer interest rates will fuel refinancing risk.

In terms of the Fund's exposure to property and infrastructure, these assets remain attractive as both listed infrastructure funds and property REITS stand at large discounts to NAV and also offer some inflation linkage. However, the Fund retains a preference for infrastructure over property in the belief that it should be more resilient.

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PERFORMANCE DISCRETE	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023	12 Months to 31/12/2024
Fund (B Class)			-14.8%	10.3%	4.5%
IA Mixed Investment 40-85% Shares*			-10.1%	8.1%	8.9%
Sector Quartile			4	2	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.

*As the Fund invests in a range of assets, investors may compare the Fund's performance to the Investment Association Mixed investment Sector 40-85% shares. Funds in this sector must have between 40 to 85% invested in company shares. However, the Manager is not bound or influenced by the Sector category when making investment decisions.
**Our tactical asset allocation decisions are informed by the quarterly meeting of EdenTree's Tactical Asset Allocation Committee, which analyses prevailing macroeconomic conditions, discusses positioning within each of the sub-funds and determines the appropriate factor exposures for the multi-asset portfolios.

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

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