EdenTree R&S Managed Income Fund

Q4 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	-3.2%	1.9%	3.8%	3.9%	15.0%	55.9%
FTSE All Share TR GBP*	-0.4%	1.9%	9.5%	18.5%	26.5%	81.9%
IA Mixed Investment 40-85% Shares	1.2%	2.8%	8.9%	5.8%	24.0%	72.8%
Sector Quartile	4	4	4	3	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 2024 proved to be every bit as dramatic as the rest of the year. The US election dominated market events, with the change in regime sparking a sharp rally in US equities, on top of an already frothy market for the year so far. While the S&P 500 managed to return 28% (in GBP terms) for the year, half of that return came from just five stocks: Nvidia, Meta, Apple, Microsoft and Amazon. This level of market concentration is unusual, given that 2/3 of the constituents of the S&P 500 actually underperformed.

This rather unhealthy concentration was the result of a number of factors: (possibly irrational) exuberance around AI; a surge in retail investment flows in the US; a feedback loop from wealth created in equally frothy crypto currency investments; and high levels of liquidity amid huge US government stimulus, where the budget deficit has been running at exceptionally high levels.

A further impact of the election was to scale back expectations of interest rate cuts, given the incoming administration's policy focus on tariffs and tax cuts, which are probably inflationary in inflicted in full. After a few weeks of heightened exuberance, the year-end saw the equity market wobble, as fears of higher interest rates continued to mount.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Managed Income Fund lagged the market over the quarter. This was primarily a consequence of the sharp shift in interest rate expectations, which disproportionately affected our infrastructure and 'capital preserver' baskets, both of which are baskets that contain stocks where we target a high and sustainable dividend yield. Some of our REIT and utility holdings were particularly poor performers. In contrast, our 'dividend growth' and 'value' baskets performed relatively well. Of note, banks such as HSBC and Standard Chartered rose sharply.

In terms of portfolio activity, we reduced some of the portfolio's exposure to French equities, after a strong performance over the year, but amid ongoing political stress. We own French-listed stocks such as Schneider Electric, which have very little business in France, but we did trimmed our position in SPIE, a technical services business that has a larger domestic business in France.

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OUTLOOK

At the start of 2025, we find ourselves in a position where there is an extraordinary concentration of capital in US financial markets, in both private and public markets. This is largely a continuation of a trend seen in recent years, but which has accelerated recently. Given the economic weakness and political discord in Europe and the stagnation of growth in China, the US really has been the only show in town for most investors and this has created some remarkable skews. Against just about every valuation metric, US equities are at extreme valuations relative to their own history and to other regions. Some of this is justified. The US has been far more economically dynamic than the rest of the world but this is not without problems. The equity market gains have been mainly driven by higher valuations as opposed to better earnings growth – indeed it is not as if European companies have not grown profits. US growth has also been driven by lavish government stimulus, with a budget deficit probably in excess of 6% this year and only likely to get bigger under the tax cutting measures of the new administration. There is only so long that bond markets will tolerate such exuberance.

This creates a dangerous backdrop. Our view is to remain with a defensive positioning. While we do own the shares of some higher growth companies, we only do so at tolerable valuations. We also own businesses where there is a high level of earnings visibility, such as regulated utilities like National Grid and Veolia. We also only own companies where we have high conviction in their dividend sustainability – in the long run profit growth and the resulting dividends are by far the main driver of shareholder returns, not higher valuations. Our view has always been that one cannot build a portfolio around a specific set of potential circumstances and that a portfolio needs to be resilient and widely diversified to cope with whatever happens, hence our focus on investment baskets as a risk management tool. Our remit remains to generate a resilient yield, with the scope for capital growth. Vital to this is our responsible investment process, which we feel offers vital due diligence and screening across all of the Fund's holdings to ensure that we only invest in businesses that we confidently believe are engaged in best practice across all aspects of their operations.

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)	-5.3%	16.9%	-7.0%	7.6%	3.8%
FTSE All Share TR GBP*	-9.8%	18.3%	0.3%	7.9%	9.5%
IA Mixed Investment 40-85% Shares	5.5%	11.1%	-10.1%	8.1%	8.9%
Sector Quartile	4	1	1	3	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.

*FTSE All-Share Index – This benchmark is a comparator against which the overall performance of the fund can be measured. It has been chosen as the Fund's average market and sector exposure is biased in favour of UK equities and corporate bonds. The portfolio manager is not bound or influenced by the index when making investment decisions and the Fund's holdings may deviate from the benchmarks constituents.

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