R&S Global Equity Fund

Q4 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	6.0%	3.3%	16.5%	14.0%	51.6%	97.5%
FTSE World TR GBP	6.9%	7.6%	17.2%	32.8%	83.9%	203.9%
IA Global	6.9%	5.7%	12.7%	17.5%	64.6%	140.8%
Sector Quartile	3	4	2	3	3	4

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

MARKET REVIEW

In the fourth quarter, global equites rebounded strongly, buoyed by optimism that rate cuts could be coming sooner in 2024 than expected, with the FTSE World Index delivering a total return of 6.9% in sterling terms. Inflation data in the US and Europe came in softer, with US core PCE inflation (the Federal Reserve's preferred inflation metric) reading lower than 2% for the first time since 2020. These data points were interpreted as a signal that a reversal in monetary policy was on the horizon, despite the US economy remaining relatively robust and unemployment low. Messaging from the Fed meeting in December also provided a supportive narrative of a dovish pivot, projecting three rate cuts in 2024. The anticipation of a lower cost of capital led to a rally across most stock markets and styles, with growth in particular outperforming.

The quarter saw a reversal of the sector performances witnessed in Q3, with Energy (-6.7%) the weakest sector and the only to produce a negative return, while Real Estate (+12.4%) and Technology (+12.2%) were the best performing sectors. Sector performance demonstrated the switch to risk-on sentiment as rate cuts in 2024 were priced in. Bourses in Europe and the US outperformed the energy and staples dominated UK stock market.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Global Equity Fund rose 6.0%, underperforming the FTSE World Index and IA Global sector by 0.9% for the quarter, although the Fund delivered strong outperformance of 1.2% in December.

In terms of positive stock selection, Horiba, the Japan based emissions and instrument testing specialist was the Fund's top performing stock, returning 40% over the quarter after raising its full-year guidance. In contrast, Taiwanese based chip-testing leader Chroma ATE fell 23% after reporting weaker monthly revenue. In software and cybersecurity, our holdings in Salesforce and Palo Alto both rose over 20% as their respective results and guidance beat expectations. Despite their defensive qualities, the Fund's utilities holdings namely SSE (UK) and Enel (Italy) both gained 15%, outperforming the utilities sector return by c.10%. We were also encouraged to see a bounce back in our renewable infrastructure holdings HASI +30% and Gore Street Energy +15%, after lagging in Q3 due to the higher-for-longer interest rate narrative at that time. Finally, within Healthcare, Sanofi experienced a surprise sharp retracement as investors reacted negatively to their "Play-to-Win" strategic announcement of a €1bn increase in R&D spending leading to c.€20bn market capitalisation loss.

In terms of activity over the quarter, the Fund fully exited the holding in Philips, which makes healthcare equipment such as MRIs, following the stock's recovery from lows earlier in the year, with the proceeds allocated to higher conviction portfolio ideas. Specifically, we took the opportunity to add to our existing MedTech holdings, Medtronic and Boston Scientific, which had sold off sharply due to fears a new wave of obesity drugs would reduce the future addressable market for cardiac medical devices. We felt the market remains overambitious with estimates of the obesity drug's capabilities and is overlooking the continuing, arguably larger, addressable market for cardiac and related procedures.

OUTLOOK

Entering 2024, a more optimistic yet cautious macroeconomic outlook has emerged as market consensus. Inflation is considered to be finally within reach of target levels, a reflection of the aggressive rate hiking cycle enacted by central banks. Yet, the US economy has been stubbornly resilient, with the Federal Reserve so far pulling off the seemingly impossible scenario of bringing down inflation without inducing a sharp economic slowdown and a wave of unemployment. With interest rates meaningfully above inflation, there is now manoeuvrability to reduce interest rates in 2024. There is, however, a large expectations gap between the market and the Fed, with the market pricing in six rate cuts during the year, markedly more than the Fed's own commentary for three. Changing direction is not without execution risk and other central banks face the same delicate balancing act of not sparking more inflation through rate cuts or waiting too long and risking recession. Whilst we do see rates coming down in 2024, we are a little more restrained in our estimates and view the new natural level of interest rates (R*) as higher than the last decade due to continuing deglobalisation, the fact China is no longer exporting disinflation and a (still) discombobulated supply chain. Aside from monetary policy, political risk looks likely to dominate 2024 with more than two billion voters across over 50 countries expected to go to the polls. This democratic process is playing out against a backdrop of high existing geopolitical tensions, raising the likelihood that some notable elections this year could further escalate tensions. This investing environment requires more discernment in stock selection and valuation discipline, particularly as it is unlikely that monetary policy is going to revert to the zero-bound, QE infused conditions of the last decade. Our overarching focus on pursuing Sustainability at a Reasonable Price (SARP) engages the team's expertise in identifying and evaluating the long-term potential for companies that are enabling and benefiting from the transition to a more sustainable global economy, without over-paying for this exposure. This is a process grounded in deep, fundamental stock-level research and valuation discipline, which enables us to identify under-covered and/or out-of-favour stocks whose potential is often mis-understood by the market. With 2024 likely to be dominated by political noise and myopia, we envisage there will be plenty of opportunities to identify sustainability at a reasonable price, and as such we view this strategy as well suited to the uncertainty ahead.

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)	19.1%	11.6%	19.3%	-17.9%	16.5%
FTSE World TR GBP	22.8%	12.7%	22.1%	-7.2%	17.2%
IA Global	22.0%	14.8%	17.6%	-11.3%	12.7%
Sector Quartile	3	3	2	3	2

Past performance is not necessarily a guide to future returns.

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