# EdenTree R&S Global Equity Fund

## Q4 2024 Commentary

## PERFORMANCE

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|
| Fund (B Class) | 0.3% | -0.4% | 7.2% | 2.4% | 36.4% | 103.0% |
| MSCI ACWI Net TR GBP* | 6.0% | 6.5% | 19.6% | 30.1% | 79.0% | 226.5% |
| IA Global | 3.6% | 3.8% | 12.8% | 12.8% | 52.2% | 153.9% |
| Sector Quartile | 3 | 4 | 3 | 3 | 4 | 4 |

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

## MARKET REVIEW

The final quarter of 2024 was dominated by the outcome of the US presidential election and its global implications. The MSCI ACWI Index returned 6% in sterling terms, with US equities leading gains as the market priced in a Republican clean sweep and a return to 'America First'. The incoming administration's showcase agenda of deregulation, tax cuts, tariffs and anti-immigration policies drove a recalibration of the global economic outlook for 2025. This was negative for European and Asian indices as the imminent threat of trade disruption and geopolitical uncertainty was rapidly priced in. The combination of these anticipated policies raised inflation expectations, implying interest rates will be higher for longer in the US.

## PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Global Equity Fund rose 0.3%, underperforming the MSCI ACWI return of 6.0%, placing the Fund third quartile in the IA peer group. US market gains of c.10% in sterling terms contrasted sharply with a 4.2% decline in European indices, while Asia ex Japan also fell 1.7%. The Fund's underweight to US and overweight to Europe, coupled with adverse currency moves, accounted for around half the underperformance over the quarter. Negative sentiment towards sustainable solutions companies was prevalent across all geographies, but particularly evident in the US and Europe. US stock selection was the largest detractor as US markets again exhibited pronounced narrow market leadership, with a handful of stocks producing the majority of returns. In aggregate, due to the narrowness of index leadership, over 68% of stocks underperformed the US benchmark. Specifically, Tesla was the largest detractor, gaining over 65%, as investors ascribed material value to Musk's proximity to the President Elect. Similarly, Amazon (+26%), Apple (+15%) and Nvidia (+19%), cumulatively accounted for all (-1.8%) of the Fund's stock selection detraction in the US.

In terms of themes, Disruptive Innovation led returns with top contributors Marvell Technology (+64%), Salesforce (+31%), Spotify (+30%) and Alphabet (+22%). Specifically, Marvell's custom ASIC chips are providing the hyperscalers (Microsoft, Amazon, Alphabet) with an alternative to Nvidia's dominant product suite. It is estimated that for every $1 spent on Nvidia GPU chips, there will be $8 spent on broader AI software and infrastructure. This broadening of spend supports portfolio holdings such as Salesforce, who are expected to participate in the next phase of AI growth, agentic AI.

Cleaner, Safer, Circular performance was mixed with US focused businesses outperforming those more globally exposed or sustainably aligned holdings. In mid-November, the team attended the Baird Industrials Conference in Chicago, an insightful conference in the week following the election result. We heard a clear narrative of passing through tariffs to customers via higher pricing, which could lead to resurgent inflation. Further, in an already tight US labour market, the anti-immigration agenda was seen as adding to the shortage in available labour, particularly in sectors heavily exposed to migrant labour force, such as construction. Assessing the future impact of inflation, higher rates and limited workforce availability led us to reduce holdings with exposure to US residential where we felt risk had not been adequately priced in. Having exited

Advanced Drainage in late Q3, we reduced Mueller Water, which had been a strong performer year to date, given the exposure to new residential construction activity in the US. Post the conference, we felt encouraged for the outlook around efficiency and safety in particular, thereafter adding to our position in safety equipment specialist MSA Safety. We also increased our weighting to financials over the quarter, responding to a higher-for-longer interest rate environment, adding a new holding to Iowa based Life Insurer, Principal Financial Group, and increasing existing holding Hartford Financial Group.

Within our Healthy Future thematic healthcare stocks lagged, delivering -6.7% as the sector (-5.1%) grappled with the implications of Trump's controversial nomination of Robert F. Kennedy Jr as Secretary for Health and Human Services. Pharma stocks with vaccine franchises such as Sanofi (-10%) were hit the hardest, given his previous criticism of the industry and non-consensus anti-vaccine views. Elsewhere, Novo Nordisk (-22%) was a key detractor over the quarter, after the release of headline data for its newest obesity drug, Cagrisema, fell short of the company's self-imposed bar of 25% weight loss. At 22.7% weight loss, this is still the highest efficacy seen in a P3 trial and with a much more competitive profile than Wegovy, but the trial design allowing flexible dosing may have led to the highest possible weight loss not being achieved. In late December, we added a new holding, Tecan, the Swiss-based leader in lab automation. After a challenging period for life science tools with sluggish demand in China, stemming from both macroeconomic factors, we felt valuation and expectations had reached an attractive level for this key enabler of diagnostics and life sciences applications.

## OUTLOOK

The outlook for 2025 remains relatively opaque, with a wide range of possible outcomes dependent on the actions of the incoming US Administration. Within the US, probable tax cuts and deregulation should spur growth, yet countered by the wide-ranging and sporadic tariffs and anti-immigration measures. On balance, this is likely to result in higher growth, higher levels of inflation and a higher terminal interest rate. Closer to home, Europe faces an improving inflation situation and easing rates but this outlook is also tempered by possible tariffs on exports to the US, sluggish China trade and political turbulence following a year of election surprises. Although China has enacted measured stimulus programs, positive momentum has yet to materialise; we expect increasing stimulus until the economy regains momentum. This may well be required to offset the impact of being on the receiving end of punitive tariffs from the US. Geopolitical risk will remain elevated with an unpredictable US president at the helm, there is optimism that this could lead to resolution in Ukraine but further fanning of political tensions with China and Middle East are downside risks.

Following a year of exceptionally narrow breadth, driven by the 'Magnificent 7', over 2/3$^{rds}$ of US stocks underperformed the benchmark. With the US accounting for over 65% of global indices, this dynamic has resulted in a relatively challenging period for active investors who are under-weight these mega-caps. Moreover, this comes on the back of a cost-of-living crisis in 2023, and the Ukraine war in 2022, bringing about a sustained period of underperformance for sustainable aligned companies. Clearly the investment environment has become more challenging for sustainable investments, with the rising anti-ESG rhetoric in the US catalysed by the Trump victory, exacerbating the selloff in some sustainably aligned investment areas. However, we see the recent concentration and poor sentiment as presenting a multitude of more appropriately valued opportunities that will yield attractive returns beyond the electoral cycle. Additionally, we see pragmatic opportunities, particularly within climate adaptation, efficiency and safety, that will continue to participate despite the political headwinds. Efficiency will continue to have a core role, be it consuming less energy, water or other finite resources, particularly after several years of high inflation with more perhaps to come. Equally we will continue to favour initiatives that can help businesses do more with a limited workforce. Safety and testing, we predict as another brighter spot, a beneficiary of higher automation and industrialization, particularly in heavy industry. We do not expect deregulation to focus on erosion of safety for workers, particularly in a tight labour market. Whilst we are taking a more cautious approach on policy dependent areas; we continue to seek out sustainable, highly aligned opportunities in resilient, politically insulated companies.

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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) | 11.6% | 19.3% | -17.9% | 16.5% | 7.2% |
| MSCI ACWI Net TR GBP* | 12.7% | 22.1% | -7.2% | 17.2% | 19.6% |
| IA Global | 14.8% | 17.6% | -11.3% | 12.7% | 12.8% |
| Sector Quartile | 3 | 2 | 3 | 2 | 3 |

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

Past performance is not necessarily a guide to future returns.

*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 index. As the Fund invests in a diverse range of global companies and sectors, we compare the Fund's performance to the MSCI ACWI GBP Net Total Return Index, however the portfolio manager is not bound or influenced by the index when making investment decisions.



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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