EdenTree R&S Multi-Asset Balanced

Q1 2024 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	0.7%	8.0%	6.2%	-3.4%
IA Mixed Investment 40-85% Shares*	4.1%	10.2%	10.1%	5.3%
Sector Quartile	4	4	4	4

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

MARKET REVIEW

The first quarter of 2024 was a positive period for risk assets, with many global indices – including in the US and Europe – reaching record levels. Sentiment was lifted at the start of the period by economic data surprising on the upside and raising hopes that central banks would be able to engineer a soft landing. Equities gains continued to be highly concentrated, with the Magnificent 7 stocks continuing to lead gains in the US, while the European equivalent – known as the GRANOLAS – also powered higher. This meant that performance was highly bifurcated, with large-cap growth-orientated stocks leading the gainers and increasing the valuation gap between value stocks and small- and mid-cap equities.

As the quarter drew to a close, headline inflation data proved to be stickier than expected, dampening expectations about the pace and scale of interest rate cuts by the Federal Reserve in particular, and prompting investors to reign in their appetite for risk. The European Central Bank (ECB) and the Bank of England continued to imply interest rate cuts are forthcoming, but the overall era of higher borrowing costs may last longer than was anticipated at the start of the year. While the market environment was positive for equities, bond markets fared less well amid surprising economic strength and more persistent inflation leading fixed income investors to push bond yields higher once again.

In terms of market performance, the FTSE All-World Index climbed 9.8% during the quarter in sterling terms. In the US, the S&P500 and the NASDAQ added 11.8% and 10.5% in sterling terms. In Europe, the FTSE World Europe Index ex UK returned 6.8% in sterling terms, while the FTSE All-Share lagged other major markets, gaining 3.6%. Japan's Topix was once again one of the top performers, climbing 11.1% in sterling terms. Emerging market indices generally underperformed their developed market peers, experiencing more modest gains as concerns about China persisted, the MSCI Emerging Market Index added 3.6% in sterling terms. Meanwhile, Growth and Quality investment styles again outperformed Value on a global basis.

Bond markets were generally weaker, with yields moving higher in most regions as bond market participants priced in interest rates remaining higher for longer. In the US, 10-year Treasury yields ended the period at 4.5%, while the German 10-year bond ended at 2.4%.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Balanced Fund posted a modest gain during the quarter, returning 0.7% in absolute terms and underperforming its IA Mixed Investment 40-85% Shares benchmark, which returned 4.1%.

In terms of the Fund's overall equity performance, its lack of exposure to some of the large-cap names driving the rally proved to be a significant headwind. The Fund's overweight exposure to UK equities, through holdings in EdenTree's R&S UK Equity and UK Equity Opportunities funds, detracted from performance due to the UK's relative underperformance versus the US market, as well as its overweight small-cap exposure.

The Fund's holding in the R&S European Equity Fund also detracted from the Fund's relative performance, although its overweight position in financials, and banks in particular, added value thanks to strong sector earnings and a series of share buybacks being announced. The Fund's underweight in UK bond holdings, through the EdenTree R&S Sterling Bond and Short Dated Bond funds, supported relative performance as it was a weak quarter for fixed income overall. The prospect of financing costs staying higher-for-longer weighed on the Fund's infrastructure exposure, held via the EdenTree Green Infrastructure Fund as well as through direct investments in listed infrastructure companies, and real estate holdings, held through a mix of UK and overseas REITs.

OUTLOOK

At the start of the year, market expectations for monetary easing were arguably overdone. While inflation has fallen, core inflation remains stubbornly persistent – as is now being shown by data – while growth and employment have remained solid, which collectively limits central banks' room for policy manoeuvres. In our view, the shift in policy expectations over the quarter has been more balanced and, if anything, the economic outlook could continue to surprise with its robustness, despite the lengthening period of higher inflation and interest rates providing dampeners to growth. Much of last year's weakness in Europe can be attributed to inventory destocking – which particularly impacted industrial sectors – but that has largely played out now. That said, China remains a danger to global growth as the impact of its collapsing property market remains unclear, and Europe's strong trade links to China could mean its equity market is particularly vulnerable to further weakness.

Tactical Asset Allocation**

From an asset allocation perspective, having been slightly overweight equities versus fixed income at the start of the quarter we shifted this position back to neutral by the end of the period, reflecting the altered valuation levels of both assets by the end of a quarter where equities had rallied and fixed income had weakened. Despite the relatively lacklustre performance from UK equities during the first quarter, the Fund remains overweight as we continue to feel the UK market is attractively valued and offers some interesting opportunities. The Fund also retains its overweight value position as we still see better opportunities among value companies and the spread between growth and value has become very wide versus history. Finally, we have raised the Fund's exposure to small-cap companies with the view that such companies should perform better in a stronger economic environment.

Within the Fund's fixed income component, the Fund is overweight long duration as yield expectations are now more aligned with our views. We have been underweight credit in anticipation of economic weakness negatively impacting companies' financials, but we have slightly pared back this position in response to more resilient economic growth and the fact that companies have proven more robust in the higher interest rate environment than expected.

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's allocation exhibits a preference for infrastructure over property in the belief that it should be more resilient.

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 (B Class)				-5.3%	6.2%
IA Mixed Investment 40-85% Shares*				-4.6%	10.1%
Sector Quartile				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.

*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.

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A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass.

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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