

EdenTree R&S Managed Income Fund

Q2 2024 Commentary



PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	0.3%	1.8%	8.9%	6.8%	18.3%	54.7%
FTSE All Share TR GBP*	3.7%	7.4%	13.0%	23.9%	30.9%	77.8%
IA Mixed Investment 40-85% Shares	1.7%	5.9%	11.8%	7.2%	26.0%	74.0%
Sector Quartile	4	4	4	3	4	4

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

MARKET REVIEW

Equity markets gained a little ground over the second quarter of 2024, driven largely by continued strength in US technology stocks, if not to quite the same extremes as in the earlier part of the year. Indeed, for once equity market returns were fairly broadly spread, including the perennial underperformer the UK. Bond markets were largely flat, against a backdrop of relatively tight credit spreads offset by fluctuating interest rate expectations.

Elections were a highlight of the quarter, with both France and the UK calling snap elections earlier than expected, amid an already busy year for elections worldwide. Elections have historically played, at most, an intermittent role in equity market returns. However, in recent years, the breakdown in traditional voter allegiances in many countries has increased the market impact of elections, making them a lot more unpredictable and with many more fringe, mainly populist, parties coming to the fore. The UK election results bore this out, with low turnout and high absolute numbers of votes for parties other than the main two, albeit with a landslide result for Labour. In contrast, French elections created parliamentary gridlock.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Managed Income Fund eked out a slight gain over the quarter, underperforming its benchmark. A key factor in this was the unexpected French election. The Fund had exposure to French equities, with companies such as Veolia Environnement and Schneider Electric among our largest holdings. As a group, these have performed admirably for us, and remain core holdings, but the snap elections called in France did cause a short and sharp sell-off in the broader French equity market. Much of this sell-off was rapidly reversed after the period end, once the results were announced and it became clear that the far right (and far left) fringes would not be able to implement their more extreme – and expensive – policies. Our French-listed business, as a whole, have very low exposure to France anyway and are highly diversified by geography.

In contrast, our financial sector holdings such as Tryg, Talanx and Lloyds performed well, as did some of our infrastructure holdings, such as GCP Infrastructure.

Our trading activity over the quarter was low, in line with our view of allowing the long-term compounding of dividends. We added a little to our UK housebuilder exposure, which is a beneficiary of the new government's attempts to increase activity in this area. We also took up our rights in the share offering by National Grid. This was part of a plan to massively increase the level in investment in grid infrastructure by raising new equity and selling assets. We are happy to commit capital on the basis that the UK's electricity grid (and the US, where it is also investing) is absolutely critical to the energy transition and more investment will allow a larger asset base from which to grow the company over the long term.

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OUTLOOK

The debate over interest rate cuts has shifted in recent months and this has fed through into asset prices. 'When, and by how much' has moved to 'higher for longer', notably in the US, where the economic backdrop has proved to be remarkably resilient. At the same time equity valuations in the US are at extreme levels, although this is heavily skewed by a select few tech stocks. Europe, in contrast, remains at long-term valuation lows relative to the US, albeit with a more shaky backdrop for company earnings. The UK is in the same situation, but arguably at an even wider discount to the US, at a time when there is a strong case for arguing that the domestic economy is starting to recover. Our portfolio remains conservatively positioned and widely diversified across equity, fixed income and infrastructure assets, with a skew to UK and continental European assets where yields are higher and valuations look more attractive.

Longer term, our remit remains the same: to generate a resilient yield, with the scope for capital growth. Vital to this is our Responsible & Sustainable 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	12 Months to	12 Months to	12 Months to	12 Months to
	30/06/2020	30/06/2021	30/06/2022	30/06/2023	30/06/2024
Fund (B Class)	-8.9%	21.6%	-1.6%	-0.3%	8.9%
FTSE All Share TR GBP*	-13.0%	21.5%	1.6%	7.9%	13.0%
IA Mixed Investment 40-85% Shares	0.1%	17.4%	-7.2%	3.3%	11.8%
Sector Quartile	4	1	1	4	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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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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