EdenTree R&S Managed Income Fund

Q3 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	5.3%	5.6%	13.5%	12.1%	23.8%	62.6%
FTSE All Share TR GBP*	2.3%	6.1%	13.4%	23.9%	32.2%	83.6%
IA Mixed Investment 40-85% Shares	1.6%	3.3%	13.8%	7.5%	25.5%	75.4%
Sector Quartile	1	1	3	2	3	4

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

MARKET REVIEW

The third quarter of 2024 was a remarkable period for financial markets, by many measures. The S&P 500 Index hit repeated new highs, ending the quarter up over 20% year-to-date. With the Federal Reserve decisively moving into interest rate cutting mode, bonds rallied as well, experiencing one of their best quarters since the turn of the century. In China, a bold and unexpected round of policy stimulus to try and shake the economy out of its malaise had a dramatic impact, with the local equity market rising by 16% in a week, its best performance since 2008. China-exposed businesses elsewhere, such as European luxury goods companies, reacted positively as well. This rally came after a thoroughly nervous start to the quarter, with concerns over US growth prompting sharply higher market volatility, while in Japan a rare and unexpected interest rate rise caused violent rotations in Japanese equites and the yen. But as the quarter progressed, evidence emerged that a so-called 'soft landing' in the US (i.e. no recession) was looking more likely and the equity market rally resumed in impressive fashion.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Managed Income Fund performed well against a backdrop in which both equities and bonds rose. The main driver of this gain was clearly the impact of lower interest rates. Our basket of 'capital preservers' – stocks where a high and sustainable dividend is a key part of expected return – performed particularly strongly. Some of our REIT and infrastructure stocks stood out, such as PRS REIT, which rose 38% over the quarter following a board shake-up instigated by a group of large shareholders. But also a number of stocks in our 'dividend growth' basket performed well, such as Sanofi (+12%) and Bunzl (+17%). Overall though, all of our baskets performed strongly. At quarter end, we had approximately 22% of the portfolio in fixed income securities, 24% in 'value' stocks (unusually cheap stocks where we feel there is mispricing but with an attractive dividend yield nonetheless), 11% in listed infrastructure, 24% in dividend growth and 19% in capital preservers.

We did not change the portfolio much over the quarter (given that we focus on the long-term compounding of dividends, we expect turnover to be low most of the time). We did reduce our position in French equities, where strong performance had pushed the weight in the portfolio to around 17%. Mounting concerns over French budgetary constraints and higher taxation were the immediate catalyst, but also the growing strength of sterling versus the euro was proving to be a headwind. We sold Orange, the most 'French' holding in terms of revenue exposure and added to LondonMetric Property, another capital preserver, in order to add back some yield.

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OUTLOOK

The goldilocks scenario is that we are entering a phase of interest rates gently heading lower, leaving some headroom for stimulus if economic growth does tail off into recession (which at the moment is not looking likely). This ought to encourage greater capital markets activity, especially in new listings, where there is a lot of pent-up demand for IPOs. Of course, this “not-too-hot, not-too-cold” scenario will inevitably be knocked off course by unpredictable events.

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 & 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 30/09/2020	12 Months to 30/09/2021	12 Months to 30/09/2022	12 Months to 30/09/2023	12 Months to 30/09/2024
Fund (B Class)	-11.7%	25.0%	-11.0%	11.0%	13.5%
FTSE All Share TR GBP*	-16.6%	27.9%	-4.0%	13.8%	13.4%
IA Mixed Investment 40-85% Shares	-0.1%	16.8%	-10.3%	5.3%	13.8%
Sector Quartile	4	1	3	1	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.

*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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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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