EdenTree R&S UK Equity Fund

Q1 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	0.3%	5.8%	4.0%	-6.2%	7.4%	35.1%
FTSE All Share TR GBP*	3.6%	6.9%	8.4%	26.1%	30.3%	75.3%
IA UK All Companies	2.9%	7.5%	7.6%	11.1%	23.7%	59.3%
Sector Quartile	4	3	4	4	4	4

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

MARKET REVIEW

UK equities rose modestly in the first quarter of 2024, albeit by less than other markets such as the US, where index returns were fuelled by a surge in technology stocks. The UK market, where there is little tech representation by comparison, was driven higher by a mixture of oil, defence and bank stocks, offset by weak returns in mining, consumer and more interest rate sensitive sectors. Of note, there was a notable shift in interest rate expectations over the quarter, as it became evident that core inflation, especially in wages, was still high, even though the underlying UK economy was pretty stagnant. This mix hurt consumer facing areas such as retailers and leisure but also interest rate-sensitive sectors such as utilities.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable UK Equity fund underperformed the market in this environment. There were a few reasons for this. Firstly, not owning oil or defence-related stocks was a factor. But also, there were more stock-specific reasons. We held some exposure to falling UK power prices via SSE, which was down 10% over the quarter. Some of our industrial holdings, such as Spectris and Bunzl, fell after annual results suggested that the operating environment was weak. Moneysupermarket.com also fell, by 18%, largely as a proxy for weak UK consumer sentiment.

In contrast, much of the portfolio performed well. For example, Mears Group, one of our smaller cap holdings, rose (+19%) after strong results, as did Keller Group, a provider of ground engineering for the construction industry. We trimmed both positions after such sharp moves, as they are both less liquid and were becoming quite large positions. Next (+14%) bucked the trend for the retail sector after reporting excellent 2023 results and a strong outlook for the year ahead. We have let this position run higher in the portfolio as we feel that the squeeze on UK consumer activity has probably bottomed out and we have little direct exposure elsewhere in the portfolio. Convatec (+17%) was another strong performer, again after good results that showed the new-ish management team's efforts are succeeding in turning the business around.

In addition to the activity listed above, we periodically trimmed our two largest holdings, Wise and RELX, over the quarter as both performed well and rose to over 5% of the portfolio, a level we consider a soft limit for any individual holding. In both cases, though they were performing well as businesses, the valuation was quite high, which tends to temper our enthusiasm to let them run to over 5%.

We also added to Rightmove over the quarter, as it dropped a bit below the initial entry point at which we bought in at the end of 2023.

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OUTLOOK

The UK economy remains at near-recession levels but with stubborn inflation, particularly in the labour market. This is not a healthy mix for domestic-focused businesses. That said, there is some evidence of lower input costs, beyond just wages. And while there is debate over when, or even if, interest rate cuts will occur in the all-important US, there is little doubt at the moment that the Bank of England is still going to cut rates, with just the timing and extent the main issue. This ought to offer some relief. Likewise, there is likely to be a general election this autumn and polling confidently suggests a change in government. While clearly the UK's entrenched issues around competitiveness and productivity will not be solved overnight, a fresh impetus, particularly with regards to the UK's trading relationships with the EU could signal a change in opinion towards the UK's equity market, which is languishing at extreme low valuations relative to its history and just about every other equity market worldwide. In other words, it is not implausible that the worst is over for the UK economy and, by extension, the equity market, certainly the more domestically-focused areas of it at least. This might be fanciful, but the UK market has historically bounced back from such extreme low valuation levels.

Nevertheless, markets will also inevitably be affected by events that are inherently unpredictable (and therefore not priced in). To counter that, we hold what we consider to be a widely diversified portfolio across many different industries and sectors that we believe should offer resilience against the unpredictable. Vital to this is our Responsible & Sustainable investment process, which we feel offers added due diligence and screening across all of the Fund's holdings to ensure that we only invest in businesses that we confidently believe are engaging in best practice across all aspects of their operations.

PERFORMANCE DISCRETE

	12 Months to 31/03/2020	12 Months to 31/03/2021	12 Months to 31/03/2022	12 Months to 31/03/2023	12 Months to 31/03/2024
Fund (B Class)	-13.7%	32.6%	-3.6%	-6.5%	4.0%
FTSE All Share TR GBP*	-18.5%	26.7%	13.0%	2.9%	8.4%
IA UK All Companies	-19.2%	37.8%	5.3%	-2.0%	7.6%
Sector Quartile	1	3	4	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 diverse range of UK companies and sectors, we compare the Fund's performance to the FTSE All Share Index, however the portfolio manager is not bound or influenced by the index when making investment decisions.

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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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