GREEN FUTURE FUND

COMMENTARY FOR QUARTER TO END MARCH 2022

PERFORMANCE

	ITD*
Fund Performance (B Class)	1.80%
FTSE World TR GBP	4.19%
IA Global	3.06%

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

*Inception to Date

REVIEW

Following a resilient 2021, the first quarter of 2022 proved more challenging for global investment markets. Global equities (as measured by the FTSE World Index) delivered a total return of -2.0% (in Sterling terms), as concerns over the economic implications of the Russian invasion of Ukraine, a global pandemic that refuses to disappear and the potential need for a faster pace of interest rate hikes to combat higher inflation, weighed on both equities and bonds.

The Russian military invasion of Ukraine sent shockwaves throughout investment markets, causing a sell-off in equities and a simultaneous increase in sovereign bond yields. The overwhelming majority of global powers were quick to condemn Russia, implementing waves of economic sanctions upon the country and its elites, while also providing military equipment and humanitarian support but fell short of any direct military action. At the time of writing, approximately 25% of the Ukrainian population have been forced to leave their homes due to the war and markets continue to move with evolving news flow. Given the commodity richness of both Russia and Ukraine, inflation and shortages across oil, gas, grain, fertiliser and other commodities further fanned the global inflation flames already present entering 2022. The additional inflationary pressure raised the need for even faster hikes in interest rates driving a growth correction with MSCI World Value returning 2.5% and MSCI World Growth returning -6.9%.

European energy has been a central topic of debate in the face of war in Europe led by its main supplier of fossil fuels. Two-fifths of gas burned by Europeans and a quarter of imported crude in 2021 came from Russia. Dependency upon Russia for these resources have blunted a truly robust response, as many European countries have little choice but to continue to buy Russian natural gas, highlighting the importance of energy security, independence and diversity. In response to the conflict 'RePower EU' plan was launched, accelerating existing 'Fit for 55' programme which aims to reduce carbon emissions by 55%, supporting renewable energy expansion of solar, wind and development of green hydrogen to help replace Russian natural gas. Globally the inflation of energy prices we see as an enormous opportunity for both renewable energy and energy efficiency.

Looking to equity market performance, US equities returned -2.5% in Sterling terms, with significant disparity between indexes as the tech-heavy NASDAQ declined 6.2% but S&P 500 declined only 1.7% over the quarter. The US took a leading role in the condemnation of Russia's invasion of Ukraine but given the lower dependency of the US upon Russia for energy and less proximity to the conflict, equity markets remained more resilient than its European counterparts. Data over the period was mixed, encouragingly US unemployment rate declined 0.2% to 3.8% in February, as wage inflation also picked up to 5.1%. This still however lags the new 40-year high level of inflation of 7.9% and indeed consumer sentiment dipped over the period as consumers felt the pinch. The Fed raised rates for the first time since 2018, up 0.25% but with inflation running even hotter, the pace of hikes is expected to up tempo, with seven hikes forecast for 2022, weighing on growth stocks.

Equity markets in continental Europe were the regional laggard over the course of the first quarter, declining 6.8%, as the area's proximity to the conflict in Ukraine and the immediate and potential economic impact weighed on regional returns. European dependency upon Russia as a source of gas and oil made the region particularly vulnerable to fears of shortages and energy price inflation. Whilst the RePower EU initiative will support energy security and diversification in the long term, immediate options remain limited. EU inflation data sharply accelerated from February's 5.9%, to 7.5% projected for March. In a similar step with the US, the war and surging inflation dented consumer confidence over the period. Rate

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hikes continue to take a considerably slower pace in Europe, with the ECB anticipating the first rate hike only "some time" after ceasing its bond buying programme, which is expected to conclude in the Q3.

The UK was the best performing region rising 1.8%, with the FTSE 100 up 2.8%, aided by the high level of constituents in the energy and mining sector. Whilst the UK is less dependent on direct Russia oil and gas imports compared to Europe, as a large consumer of these resources, still vulnerable to the global inflation in these markets due to the conflict. Energy bill inflation was in political focus, as the Chancellor unveiled a new fiscal package to help households deal with higher bills.

Equity markets in Asia Pacific (excluding Japan), increased by 1.4% over the quarter, although there was a notable variation in the performance of the underlying national indices. There was a significant sell-off in Chinese equities over the period following comments that China did not wish to be impacted by sanctions upon Russia which built concern that Chinese firms could face being ostracised on the global stage if seen to be helping Russia. The Hong Kong Hang Seng Index hit a six year low at one stage during the period, with Chinese technology stocks hit particularly hard, as US listed Chinese companies face being removed from US exchanges. Whilst commentary from the government did shift to a more investor friendly tone, the country also faced one of its worst outbreaks of COVID, with multiple major cities placed under lockdown which will disrupt global supply chains further.

The Japanese equity market declined 3.5%, with the value of the yen depreciating significantly against the US dollar. Whilst geographically close to Russia, import/export relationship with Russia is limited, most notable exposure is natural gas imports into the auto sector which already faces disruption from COVID and semiconductor shortages.

PERFORMANCE & ACTIVITY

Despite the volatile market backdrop, the launch of the EdenTree Green Future Fund proved a success, with the strategic risk and the asset allocations of the fund being achieved within the desired implementation period. The Fund's total return of 1.8% since inception on 24th January, compared to the FTSE World benchmark return of 4.2% and the IA sector group return of 3.1%.

From a regional allocation perspective, the fund's overweight position within continental Europe was challenging, given the region was a global laggard over the period. Similarly, an underweight allocation to the US equity market (the strongest performing region over the period) weighed on the fund's relative performance.

From a sector allocation perspective, a significant headwind for the fund was Energy as the best performing sector, up 9.3% since the fund was launched. Global commodity prices continued to rise with strong price gains for gas oil, natural gas and heating oil amid rising global demand for energy and fears of supply curbs as a result of the crisis in Ukraine. Additionally, the funds overweight allocation to the cyclically exposed Industrials group proved to be a detractor over the period, as inflation and supply chain dislocations weighed on the broader sentiment surrounding the outlook for economic growth. From a framework perspective, the fund sourced the strongest returns from the Alternative Energy segment, with SolarEdge Technologies, Alfen Beheer, SSE and Hannon Armstrong among the primary contributors to both absolute and relative performance, largely thanks to an improved demand outlook.

OUTLOOK

Incoming macroeconomic data continues to confirm that underlying price pressures that have contributed to stronger-than-expected inflation are yet to abate. The invasion of Ukraine has already disrupted the supply of a swathe of hard and soft commodities, with sanctions against Russia likely to exacerbate adverse energy cost implications in the near term as the global economy adjusts to the fast-evolving geo-political developments.

Within this context, we believe that the outlook for the Green Future Fund remains constructive. While our portfolio holdings will not be completely insulated from inflationary pressures, they have sufficient pricing power to navigate through an inflationary environment. Importantly, the current dislocations in global commodity markets and global supply chains has intensified the spotlight on the pace and affordability of the transition to a sustainable future, stimulating both government and corporate investment in environmental solutions.

To obtain 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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