GREEN FUTURE FUND

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	ITD*
Fund Performance (B Class)	-10.80%	-9.19%
FTSE World TR GBP	-9.07%	-5.26%
IA Global	-10.23%	-7.50%

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

*Inception to Date

REVIEW

The FTSE World Index ended the second quarter down 9.1%. Following a challenging April, global markets stabilised in May, before lurching lower in June amid concerns about a deteriorating economic outlook. Inflation surged to multi-decade highs and the Fed sharpened its resolve, raising interest rates by 0.5% and then 0.75% during the quarter. The market started to price in rate increases of larger increments and grew concerned a recession might prove to be the ultimate cost of tackling inflation. The Bank of England also continued its efforts to rein in inflation by incrementally increasing its base rate, while the tone from the European Central Bank became noticeably more hawkish. Within the market, the rotation out of growth shares into value continued, as starkly shown by the relatively modest 3.7% decline in the Dow Jones Industrial index compared to a 16.1% fall for the growth-dominated NASDAQ index, over the quarter. Similarly, the UK (-4.1%) outperformed other developed markets due to the high weighting in energy and banks, while Europe (-8.4%) and the US (-9.6%) suffered heavier losses.

PERFORMANCE & ACTIVITY

Against this backdrop the EdenTree Green Future Fund returned -10.8%, in its first full quarter since its launch in January. Circular economy holdings Renewi and Brambles had a positive quarter. Waste-to-product business Renewi firmed after announcing positive results with the business underscoring its ability to pass on rising costs to customers. Brambles made progress after updating its guidance for the year. Elsewhere, renewable energy infrastructure companies Greencoat Renewables and Harmony Energy added value; rising energy prices have generally been supportive for these defensive renewable energy stocks. We added to both holdings during the quarter.

Negative contributors to the fund came from companies whose operational activities are exposed to the current energy dynamics in Europe. Befessa and Rockwool lost ground, for example, due to the cost increases caused by rising gas prices and broader concerns of possible energy curtailment. We have been playing particular attention to the risk of gas shortages in Europe and possible implications for our holdings. Should the flow of gas from Russia continue to remain at low levels, decrease further or stop altogether, energy costs will rise further as a % of GDP and place pressure on homes and industries to reduce usage of gas and electricity. While tight gas supplies have made it operationally difficult for Rockwool, whose home insulation products are energy intensive to produce but save far more carbon when used, gas shortages have ironically strengthened the reason to buy its products. We continue to watch this dynamic closely.

Elsewhere, Applied Materials, Infineon and Alfa Laval weakened due to negative sentiment towards cyclical and technology companies. We decided to reduce our semi-conductor exposure during the quarter, selling down the holding in Infineon, due to concerns about an economic slowdown and the potential for overcapacity.

At the sector level, having no exposure to health care and an underweight in consumer staples dampened relative performance, with both sectors exhibiting defensive characteristics during the quarter. In contrast, underweight exposures to technology and consumer discretionary were positive for returns.

OUTLOOK

There has been a considerable drawdown since the start of 2022 across most developed markets. Notably the excessive multiples seen at the end of 2021 have reverted closer to longer term averages. However, further volatility cannot be ruled out with corporate earnings estimates yet to reflect the

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tougher economic environment. The forthcoming coming reporting season is likely to present a clearer picture of conditions on the ground in terms of customer demand, input costs and wider operational pressures, especially in Europe. The key markets dynamics over the next 6-12 months will likely focus on what level interest rates might peak at and we believe there is a real risk the Fed could over-tighten given its twin policy objectives of inflation and employment; the labour market is yet to show any sign of a slowdown which might create misplaced confidence in the economy’s ability to tolerate far higher rates. Nevertheless, any sign the Fed is wavering due to concerns on growth is likely to lead to a sharp market rotation in favour of growth stocks.

With markets favouring health care, tobacco, defence and energy stocks since the start of Russia’s war in Ukraine, it has been a challenging backdrop against which to launch the EdenTree Green Future Fund, which is focused on seven green themes and has a natural bias towards Europe. However, we have been encouraged by the opportunities we are finding and the progress that we continue to see in a challenging environment. Moreover, despite the many short-term risks, the backdrop is further cementing the need for increasing the uptake of energy efficiency solutions and developing clean, independent, secure energy. Through its REPowerEU plan, the EU is rapidly adapting to the need to reduce dependence on imported energy from Russia and aims to end fossil fuel imports from that country well before 2030. The plan pivots around three keys areas: energy savings, diversification of energy supplies and the accelerated roll-out of renewable energy. Most importantly for the Green Future Fund is the increased focus on energy efficiency and renewable energy. The portfolio is well positioned to benefit from this opportunity despite the some of the short-term economic challenges resulting from the conflict. Overall, the fund remains relatively cautiously positioned, with a higher-than-normal cash positioning to allow us to pursue opportunities as they arise.

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