HIGHER INCOME FUND

COMMENTARY FOR QUARTER TO END MARCH 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	6.27%	18.61%	27.25%	12.29%	35.21%	82.42%
FTSE AllShare TR GBP	5.19%	18.47%	26.71%	9.89%	35.69%	78.99%
IA Mixed Investment 40-85% Shares	1.62%	9.78%	26.47%	21.79%	45.40%	86.11%
Sector Quartile	1	1	2	4	4	3

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

REVIEW

Since the start of the year, equity markets have continued to benefit from increasing vaccine optimism as well as unprecedented levels of fiscal and monetary stimulus. This has led to an acceleration in global growth with the UK and US leading amongst developed economies as their respective vaccine rollouts have progressed swiftly. Europe lags behind as the EU and national governments mismanaged the initial vaccination drive, resulting in renewed lockdowns. The EU are, however, still on course to bring Covid under control later in the year. This economic rebound carries with it the prospect of a more inflationary environment and monetary tightening which has led to a sharp increase in bond yields from their previously low levels.

The improving economic outlook drove UK and global equity markets higher, led by 'value cyclical' areas of the market. In contrast, the higher bond yields led to negative returns from government bonds as capital values fell. Investment grade corporate bonds were also under pressure by were partially supported by a narrowing in credit spreads.

PERFORMANCE & ACTIVITY

EdenTree Higher Income Fund performed strongly over the quarter, returning 6.3%. This was ahead of equity market returns with the FTSE All share return of 5.2% and the FTSE World return of 5.1%. Fixed interest suffered as yields rose with the FT AllStock government bond index down -7.2% and non IBOXX non-gilt investment grade index down -4.1%.

In terms of asset allocation, the Fund benefited from only having a small allocation to fixed interest and a bias towards the UK equity market rather than overseas. The main driver of outperformance was its focus on value-orientated, high yield areas of the equity market which substantially outperformed the wider market.

Sector weightings had a positive impact on performance due to overweight positions towards cyclical areas of the market such as industrials, financials and materials. The correspondingly large underweight exposure to the largest defensive sector, consumer staples, also had a positive impact on performance.

The Fund benefitted from its high exposure to 'value cyclical' industrial companies with holdings such as Bekaert, General Electric, Texwinca and Boustead Singapore all performing strongly. Energy and material stocks also reacted positively to the stronger economic outlook with BP, Crescent Point Energy and Yara International all contributing to the strong performance of the fund. The strongest single contributor was Royal Mail which rose strongly as parcel volumes rose sharply from the growth of e-commerce under lockdown. DS Smith, the paper packaging company also benefitted from higher demand from e-commerce and also from the structural substitution of paper for plastic packaging to combat the detrimental impact of disposable plastic on the environment.

As cyclical stocks soared on the back of improving economic sentiment, more defensive areas of the market were left behind and consequently many of the worst performing holdings came from the pharmaceutical sector including the likes of Roche, GlaxoSmithKline and Pfizer.

The fixed interest portfolio performed strongly compared to both government and investment grade corporate bond indices due to its significant exposure to high yielding, niche areas of the bond market including Building Society PIBS and preference shares. These were a lot less affected by rising bond yields and continue to generate high income yields.

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In terms of Fund activity, the main area of activity was on profit-taking in strongly performing 'value cyclicals'. This included outright sales of General Electric and Texwinca and the trimming of holdings of Royal Mail, BHP, Bekaert, Tui, Royal Dutch Shell and DS Smith. The fund also exited China Mobile which came under regulatory pressure from the US. The fund also reduced exposure to the semiconductor company, TSMC, which had performed very strongly and appeared fully valued.

Two new positions were taken in high yielding, Hong Kong based companies, VTech, which is well known for making electronic learning toys for children and Greatview Aseptic which makes paper based packing for milk and other liquids. The fund also took a new position in Cordiant Digital Infrastructure which invests in mobile telecommunications infrastructure and offers a high and sustainable yield. In addition the Fund increased exposure to PRS REIT which invests in residential property.

OUTLOOK

In spite of the ongoing challenges relating to vaccine safety concerns, supply distribution disruption, and the emergence of new and possibly vaccine-resistant coronavirus variants, the outlook for the global economy continues to improve as vaccination programmes progress and approach critical mass across much of the developed world. With the strength of the economic recovery thus far surprising to the upside, and as lockdown restrictions ease further, consumer spending is forecast to benefit from record levels of savings amassed over the course of the pandemic hiatus, and the unleashing of pent-up demand.

We believe the Fund is well positioned to benefit from the strong recovery in economic activity through its exposure to 'value cyclicals' whilst at the same time having exposure to rising inflation through an underweight position towards fixed interest. The outlook for income for the Fund continues to improve as companies which had cut and cancelled dividends during the height of the Covid epidemic increasingly resume payments as well as by looking to enhance income through ensuring investment activity is incrementally income accretive.

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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