Q4 2020 COMMENTARY
HIGHER INCOME FUND

QUARTER TO END DECEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	11.61%	8.92%	-5.32%	2.74%	29.68%	72.46%
FTSE AllShare TR GBP	12.62%	9.33%	-9.82%	-2.71%	28.46%	71.91%
IA Mixed Investment 40-85% Shares	8.03%	10.05%	5.51%	14.90%	43.17%	83.60%
Sector Quartile	2	2	3	2	3	2

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

REVIEW

Markets rallied in Q4 as BioNTech and Pfizer announced a successful phase 3 trial for their Covid-19 vaccine. In spite of coronavirus cases across much of the world continuing to climb, the prospect of a return to normality led to significant market rotation in favour of economically sensitive sectors, with stay-at-home beneficiaries lagging following exceptionally strong performance year-to-date. Against this backdrop, value stocks posted their best quarter since 2009, performing around 3% better than their growth peers, while smaller cap companies outperformed their larger peers gaining 13.1% vs. 8.4% respectively in Sterling terms.

November was the standout month as Joe Biden won the presidential election in the same week the first vaccine was announced, triggering one of the strongest monthly gains on record. Following a prolonged ordeal with democratic denial from outgoing President Donald Trump, Biden's nomination was met positively by markets with greater stimulus prospects and a more cordial approach to global trade.

On home soil, shortly before Christmas the UK and EU managed to negotiate a post Brexit trade arrangement that was a major positive for UK economy and sterling currency. Global equities were strong with FTSE World Index gaining 8.6% however, UK Equities led the way, benefitting from the Brexit resolution with FTSE All Share rising 12.6%. Small and medium sized companies benefitted even further as illustrated by the FTSE 250 gaining 18.6% and FTSE Small Cap index rising 24.2%. A new highly transmissible variant of COVID spread through the UK, leading to new lockdown measures and further economic pressure. The Chancellor extended the job support scheme which is now due to expire in March 2021. On the monetary policy front, the MPC further extended the level of quantitative easing by £150 billon, whilst also extending its funding scheme for banks' lending to small businesses.

Asia ex Japan was the strongest performing region, gaining on the prospect of improved cyclical recovery coupled with the weakening US dollar. Chinese exports posted record monthly levels in November on global restocking demand particularly in technology and medical supplies, while the Renminbi continued to strengthen appreciating close to 4% over the quarter and nearly 10% from the May peak. Whilst in Japan, newly appointed prime minister Yoshihide Suga unveiled a Y73.6 trillion (c.$700bn) fiscal package aimed at creating jobs and restoring economic growth as well as support for medical facilities and elderly housing. Suga additionally announced a new fund worth Y2trillion to fund green technology as well as support digitalisation upgrades while reflecting similar policy target upgrades around carbon emissions. With upcoming elections and falling popularity for his Liberal Democratic Party, there is a needs to demonstrate policy effectiveness in order to avoid becoming a stop-gap premier.

PERFORMANCE & ACTIVITY

EdenTree Higher Income Fund rose 11.61% over the quarter in sterling terms, lagging the FTSE All share Benchmark return of 12.62% but ahead of the peer group average of 8.03%.

The strength of the UK market saw the fund underperform the FTSE All share benchmark and the funds asset and geographic allocation detracted. Fixed interest returns posted narrow gains but failed to keep pace with equity bourses as the risk rotation saw FTSE Actuaries UK All Stocks Gilts generate 0.6% over the quarter. Corporate Bonds benefitted from a narrowing in spreads with IBOXX Sterling Corporate Bond Index rising 3.1%. The funds selections in bonds were bolstered by Preference shares which continued to perform well in this low rate environment as the hunt for yield grows increasingly difficult.

edentree
investment management

The headline market events of the quarter saw notable sector rotation with Energy stocks leading the way following a torrid year, benefitting from Oil prices surging. Financials were the next strongest sector and a positive for the fund as the largest sector overall. The majority of the fund is invested with these companies offering a higher yield. With these “risk on” moves, defensive sectors unsurprisingly were weaker as Healthcare was most affected and the only segment of the UK market to fall over the quarter. Consumer Staples were the weakest risers, acting favourably for the fund given the sizeable underweight position, boosted further by strong selections. The fund generated strong gains in the Technology sector with its holding in Taiwan Semiconductor outperforming the aggregate return for Global Technology. Industrial sector stocks were also particularly strong reflecting the demand for economically sensitive exposure as expectations of a recovery rose on the back of successful vaccine news. General Electric was the leader among this segment with its October results posting a surprise profit, suggesting the long term turnaround story may be gathering pace and shares climbed over 60% in the period.

At an individual stock level, the funds top performers mostly came from the UK with Financials strongest as Legal & General was the funds contributor. RSA Insurance, HSBC and Lloyds were joined by European bank Santander as strong performers. Q3 results season saw Synthomer shares surge following a strong earnings print and dividend reinstatement. DS Smith was also a strong contributor posting good half year results in December as earnings beat consensus estimates and also announced a 4p interim dividend. Royal Dutch Shell and BP were also strong contributors with the Energy sector leading the way over the quarter. On the downside, there were no surprised that pharmaceuticals were the biggest detractor with Sanofi, Astrazeneca, GlaxoSmithKline, Bayer and Roche all falling. Our allocation to infrastructure funds which have been a key positive over the year, were detractors over the quarter as the flight to riskier assets took hold.

Trading in the fund saw profit taking from some recent strong performers that included General Electric, Billerudkorsnas, Scottish & Southern Energy, Weiss Korea Opportunities Fund, Royal Mail and Astrazeneca. We used proceeds to add a new position to the fund in Pharmaceutical group Bristol Myers Squibb. We also added to positions we believe have greater upside due to being undervalued, which included Lloyds Bank, Orange, Telefonica, BT and Boustead Singapore.

OUTLOOK

Heading into 2021, the immediate outlook for the developed economies is clouded by the resurgence of more contagious variants of the Covid virus but the equity markets tend to look 3 to 6 months forward and here the picture is improving. Vaccines are now being distributed across much of the developed world, the US and EU are starting large fiscal stimulus packages and much of the uncertainty over Brexit is resolved. Out of this much of the focus moving forward will be on the economic growth and recovery out of the pandemic recession. A sustainable and environmentally focused push in this direction has already seen associated stocks perform well. Economic growth is likely to come and with it, leading to rising inflation, interest rates and bond yields which may puncture the valuation bubble in technology and growth stocks. In contrast the higher growth rates should be expected to lift earnings in the more cyclical areas of the market driving value areas of the market higher. The fund is well positioned to benefit from this environment having been positioned accordingly for some time.

To obtain further information please speak to your normal EdenTree representative, visit **www.edentreeim.com or call** our support team on **0800 011 3821**

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom.

EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association. Firm Reference Number 527473.