

# RESPONSIBLE AND SUSTAINABLE MANAGED INCOME FUND

## COMMENTARY FOR QUARTER TO END MARCH 2022

### PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-1.71%	2.64%	8.16%	17.67%	24.71%	89.80%
FTSE AllShare TR GBP	0.49%	4.70%	13.03%	16.79%	25.77%	99.55%
IA Mixed Investment 40-85% Shares	-3.69%	-1.01%	5.29%	22.88%	30.33%	95.99%
Sector Quartile	1	1	1	4	3	3

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

### REVIEW

The first quarter of 2022 was challenging for both equity and bond markets. The Russian invasion of Ukraine in February exacerbated concerns that had previously been weighing on markets, such as runaway inflation (especially in relation to energy and commodity prices) and supply chain disruptions. Heavy economic sanctions were imposed on Russia, the US banned imports of Russian oil and gas, and stock exchanges around the world suspended trading in Russian stocks. Oil and gas prices rose sharply early in March, then moderated, still ultimately setting at levels far above 2021's trading ranges, with Brent oil futures trading around \$107 at the end of the quarter, compared to ending 2021 at below \$80. On top of this, there was an increase in Covid-19 infections in China, which caused concern about the prospect of further global pandemic disruption.

As the war in Ukraine began, markets initially rotated towards perceived safe havens against market disruption, but this rotation was quickly overwhelmed by concerns about rising inflation. Inflation rose steadily across global markets over the period under review, with US inflation causing particular concern as it rose to 7.9%, its highest level in over 40 years. The Federal Reserve raised its target rate by 0.25%, with seven rate rises expected over the course of the year. The Bank of England raised its policy rate twice over the quarter, reaching 0.75%.

Unsurprisingly, government bond yields rose sharply in response to these developments. US 10-year Treasury yields rose to 2.4% from 1.5%, and 2-year yields rose to 2.3% from 0.7% after the US Federal Reserve hiked rates for the first time since 2018. Yields rose less sharply in core European and UK markets. Credit spreads widened, with high yield

spreads widening more than investment grade. Value stocks, although not immune to market drawdowns, generally outperformed growth stocks over the quarter. Energy and utility stocks generated the strongest performance over the period.

### PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Managed Income Fund declined over the course of the quarter, generating a return of -1.7%, underperforming the FTSE All-Share Index, which returned 0.5%, but outperforming the IA Mixed Investment 40-85% Shares sector, which declined sharply, generating a return of -3.7%.

As a responsible and sustainable fund, we would not expect to outperform the oil-heavy UK equity market in a quarter where Brent crude rose more than 50%, but we were pleased to see that our value approach mitigated the worst falls, allowing it to outperform the IA Mixed Investment 40-85% Shares sector, as value stocks outperformed growth. The Fund remained in positive territory for most of the first half of the quarter, and then dropped sharply in line with the broader market, as it became clear that Russia would launch a fully-fledged invasion of Ukraine. It was in the subsequent market recovery, led by energy stocks and utilities, that the Fund was unable to keep up with the benchmark.

Although the Fund did not hold any conventional energy stocks, the Fund's holdings with energy price exposure, such as Greencoat UK Wind and National Grid were among the quarter's top performers. Among the biggest detractors over the quarter were holdings in Royal Mail, Synthomer, and DS Smith.



The quarter saw particularly strong returns from our telecommunications holdings Orange and Telefonica, both of which were seen to benefit from likely consolidation of the fragmented Spanish telecommunications market. Orange announced it was in exclusive talks to combine its Spanish business with that of MasMovil. Such deals have been blocked by the European Commission in the past, but the competition regulator is rumoured to now be more constructive, as the scale of investment required to build out fibre networks across Europe has become increasingly apparent. Consolidation would likely improve profitability for the remaining players in the industry, and so this was also seen as positive news for Telefonica, which is Spain's largest operator.

Among noteworthy transactions over the quarter, we initiated a new position in marine services company James Fisher & Sons, and took some profits out of Bristol-Myers Squibb, which generated a total return of almost 20% over the quarter.

## OUTLOOK

Although it quickly righted itself, the US yield curve briefly inverted towards the end of March with 2-year yields rising above 10-year yields for the first time since 2019. Historically, inversion of the yield curve has been an early indicator of recession. It is clear that central banks around the world now face the problem of how to raise rates to tackle rising inflation without choking off the post-pandemic recovery that is already under threat from the commodity supply shock caused by the war in Ukraine. This clearly presents a difficult investment environment, but we feel on the whole that, with our cautious fixed interest exposure, and with our equity holdings focused in defensive areas of the market, with high and sustainable earnings and cash flows, we are well positioned to weather the storm and mitigate inflationary pressures.

To obtain further information please speak to your normal EdenTree representative, visit [www.edentreeim.com](http://www.edentreeim.com) or call our support team on **0800 011 3821**

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