RESPONSIBLE AND SUSTAINABLE MANAGED INCOME FUND

COMMENTARY FOR QUARTER TO END DECEMBER 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	4.43%	4.79%	16.95%	26.06%	30.8%	102.79%
FTSE AllShare TR GBP	4.20%	6.51%	18.32%	27.16%	30.19%	110.70%
IA Mixed Investment 40-85% Shares	2.78%	4.14%	11.10%	35.89%	40.47%	115.88%
Sector Quartile	1	1	1	2	2	2

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

REVIEW

Global equities rallied in the final quarter of the year amid resilient corporate earnings. Bond yields trended downwards for much of the quarter, but reversed direction towards the end. Government bonds generally outperformed corporate bonds as markets became increasingly mindful of widespread inflation providing an impetus for interest rates to rise in many key markets. The resulting potential for weaker economic growth ahead led to a flattening of yield curves, with the short end of the curves moving notably higher in both US and UK markets. Developed market equities rose over the quarter, but emerging markets declined in the face of headwinds from a strengthening US dollar.

The beginning of the quarter was marked by sharp rises in growth stocks, before the emergence of new Covid-19 variant Omicron led to increased market volatility and stagnating returns in November. In the final month of the quarter, equity markets returned to an upward trajectory as it became clear that Omicron could be less likely to cause severe disease and hospitalisations. This nevertheless coincided with central banks finally being forced to face that rising inflation was likely to be less transitory than initially believed. This resulted in market leadership switching from growth stocks to more economically sensitive value stocks.

PERFORMANCE & ACTIVITY

In the fourth quarter, the Fund aligned its investment policy with the Responsible and Sustainable framework that EdenTree is known for, and changed its name from EdenTree Higher Income Fund to EdenTree Responsible and Sustainable Managed Income Fund. The Fund has always taken environmental, social, and governance (ESG) concerns into consideration, but the process now will formally exclude less responsible companies from its investment universe. We believe that companies that focus on responsible and sustainable business practices are, ceteris paribus, likely to perform better than those who do not, over the longer term. We do not believe this alignment will cause a material divergence from the asset allocation we would otherwise have maintained. As part of this process, we have sold out of holdings like BP and Royal Dutch Shell, but have initiated new holdings in companies such as Enel, RM Infrastructure Income, and Harmony Energy Income Trust.

The EdenTree Responsible and Sustainable Managed Income Fund returned 4.4% over the course of the quarter, outperforming both the FTSE All-Share Index, which generated a total return of 4.2% and the IA Mixed Investment 40-85% Shares sector, which generated a total return of 2.8%. The Fund rose most sharply from mid-October to mid-November, and, although performance stagnated towards the end of November, the Fund was able to mitigate the deepest drawdowns that took place during this volatile period, before rising sharply towards the end of December.

Despite highly volatile energy prices, our sustainable infrastructure holdings, such as Renewables Infrastructure Group, Greencoat UK Wind, and GCP Infrastructure Investments, delivered strong returns. Overseas equities underperformed relative to the benchmark, but still generated significant positive returns, while our UK stock-picks, such as GlaxoSmithKline and Royal Mail, delivered material outperformance. Fixed interest detracted slightly. The main detractors from performance were Synthomer, TUI, and DS Smith.

Jackson Financial was the best-performing holding over the period, with its share price rising by more than 60%. This mid-

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cap US annuity provider was spun out of the much larger Asia-focused Prudential in September. As is often the case with such spin-offs, this resulted in forced selling and lack of widespread research, leading to what we considered a fantastic opportunity for rerating. Despite the strong returns, we considered that the company, which, at the time of writing still trades at a P/E of around 2x and a P/B of around 0.4x, could have further to go, and we increased our position.

The Fund pays dividends on a semi-annual basis, with the previous dividend of 2.8 pence per share payable at the end of August, for a total of just over 5 pence per share for the 2021 calendar year. We believe the outlook for future dividends is positive, with estimates for the first payment of 2022 well above 2021 levels. With underlying bank holdings resuming dividend payments, we believe the Fund seems likely to return to paying dividends at pre-pandemic levels.

OUTLOOK

As we move into 2022, it seems like markets could be on the cusp of a rotation away from the growth-focused markets driven by multiple expansion of recent years. If economic growth remains benign and interest rates continue to rise, this should benefit “old economy” companies with profitable near-term activities. Such companies, after years of underperformance in the market, are trading at low valuations, and should be able to generate returns both from their underlying economic activity and from rerating to higher valuations. This would be beneficial for our value investing approach.

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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