RESPONSIBLE AND SUSTAINABLE GLOBAL EQUITY FUND

COMMENTARY FOR QUARTER TO END JUNE 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	5.83%	12.51%	27.61%	34.63%	74.45%	121.75%
FTSE World TR GBP	7.54%	11.93%	25.47%	46.63%	97.02%	221.80%
IA Global	6.89%	10.36%	25.93%	41.97%	91.75%	172.03%
Sector Quartile	3	1	2	3	3	4

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

REVIEW

Global equities, as measured as by the FTSE World Index, rallied 7.5% in the second quarter of 2021 (on a total return basis in sterling terms), buoyed by the continued accommodative monetary stance from central banks globally, a series of better-than-anticipated macroeconomic data releases, and further progress in the dissemination of COVID-19 vaccinations. The overall positive economic growth picture proved to be the most important driver of returns, stoking much higher commodity prices, which in turn helped fuel the inflation narrative. This set the tone for an unusual quarter of cross asset returns where commodities, equities and (longer dated) bonds all registered positive returns, which in turn helped drive some of the churn under the surface within equity markets, as developed market indices outperformed their counterparts in emerging economies and global growth indices outperformed global value indices by more than 6 percentage points. Overall, global equities concluded the first half of 2021 up 11.9%, the second highest first half return since 1999.

From an environmental perspective, it was a disappointing quarter as the Group of Seven (G7) summit yielded very little progress in tackling climate change. The 47th inter-governmental political forum of the world's largest "advanced economies" concluded with the countries reaffirming their targets to limit global warming to 1.5°C and restore 30% of the natural environment by the end of this decade, however the summit failed to commit the necessary funding that will be required to achieve these aims. One of the key areas where the group fell short was in climate finance for developing nations. While the group did confirm their goal to mobilise $100 billion per annum through to 2025 (a target which was supposed to be met last year but was missed), this is far short of what is required, according to environmental groups and political leaders from developing countries.

From an equity market perspective, US equities delivered robust absolute returns and outperformed the broader global equity market over the course of the second quarter. The S&P 500 Index delivered a total return of 8.6% (in US dollar terms), while the Nasdaq Composite Index rallied 9.5% (in US dollar terms), as equity investor sentiment shifted back towards quality and growth-related companies. Stronger-than-anticipated macroeconomic data (notably labour, housing and forward-looking business surveys), continued progress with the nation's COVID-19 vaccine rollout and anticipation of a bipartisan agreement on the Biden Administration's infrastructure bill boosted US equities over the course of the three month period. The outcome of the highly anticipated Federal Open Market Committee (FOMC) meeting in June was more hawkish than expected. Most notably the median interest rate forecast "dot" for 2023 now shows two hikes, up from none in the previous projection in March. Less surprising, but hawkish nonetheless, Chair Powell indicated that the Committee has begun talking about when tapering will begin. While he indicated they are "a way away" from the "substantial further progress" goals needed to actually start tapering. He also indicated that economic progress is being made and the tapering discussion will continue in "upcoming meetings."

In continental Europe, equity markets gained 6.0% (in Euro terms), however adjusting for the strength in the Euro, these gains were increased to 6.9% for sterling based investors. New cases of COVID-19 have fallen sharply in the Eurozone since late April and the vaccination programme has accelerated. As a result, restrictions are being relaxed and economic activity is recovering. In economic news, the Eurozone Pricing Managers Index hit a 39-month high in May, with service sector activity expanding at a rapid pace and reinforcing a record-high reading of the manufacturing index.

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Meanwhile, GDP growth across the Euro Area in the first quarter of 2021 was revised significantly higher as expectations of the reopening of regional economies motivated firms to invest, with both fixed investment and inventory build positively contributing to headline growth. Net trade was also supportive for aggregate activity, driven largely by a healthy expansion in exports.

The UK equity market, as measured by the FTSE All-Share Index, delivered a total return of 5.6% over the quarter, underperforming global indices and regional equity bourses. In terms of economic news, surveys and official data point to strong momentum, for example the April GDP outturn (+2.3% month-over-month), the PMIs, retail sales and housing market indicators. Sentiment indicators are also strong, with both consumer and business confidence indices back to if not above pre-pandemic levels. However, a sharp rise in COVID-19 cases, primarily caused by the Delta variant, forced senior UK ministers to delay the complete removal of legal restrictions on social contact (originally scheduled for June 21st), sustaining capacity limits on sports, pubs, restaurants and other leisure facilities for a further four weeks.

Equity markets in Asia Pacific (excluding Japan) delivered positive returns over the quarter but underperformed the broader global equity market, as continued optimism of an economic recovery was marginally offset by a strengthening US dollar. At a national level, the leading markets were South Korea and Taiwan, where strong performance from I.T. names supported gains. Conversely, equities in China underperformed as a less positive growth-policy situation emerged with efforts by authorities to reign in speculative excess in housing, equities and commodities, as well as credit growth weighed on regional performance.

Finally, in Japan, the equity market was a noticeable laggard over the course of the quarter, despite further weakening in the value of the Japanese Yen, with the Nikkei 225 index falling 1.2% (total return in Japanese yen terms) over the three month period. The weakness in equity returns was primarily attributable to nation's slow vaccine roll-out, with Japan holding the lowest COVID-19 inoculation rate among the G7 nations and progress remaining a long way behind many developing nations. Several reasons have been put forward for the slow rate of delivery, including delays in shipments arriving, distribution problems and a lack of people with the qualifications to administer the jabs.

PERFORMANCE & ACTIVITY

The Edentree Responsible & Sustainable Global Fund rose 5.8% in Sterling terms over the three-month period, underperforming the FTSE World benchmark return of 7.5% and global peer group average of 6.9%, concluding the period in the third quartile of the IA sector for the period. The returns take the fund's year-to-date total return to 12.5%, relative to the FTSE World benchmark return of 11.9% and the global peer group average of 10.4%. The fund remains in the first quartile of the IA sector over the year to date.

The primary driver of underperformance was stock selection, with the fund's holdings in continental Europe and the UK failing to keep pace with their respective regional benchmarks. Overall, regional attribution was marginally negative driven by the underweight allocation to the US, which at an index level rose only 8.7%, driven primarily by sharp gains in technology stocks. The underweight allocation to the US equity market more than offset a positive stock selection effect in the region, with the fund's US holdings outperforming the regional benchmark over the period. Most notably, the fund was boosted by the strong returns posted by its holding in **Alphabet** following the company's stronger-than-anticipated trading update for first quarter of the calendar year. Additionally, the fund's holding in Frontier Medicine equipment leader **Bruker** delivered strong returns and outperformed the broader sector, following a first quarter trading update that surpassed expectations and a subsequent analyst day in which the company provided an upbeat outlook. Conversely, the fund's underweight allocation to Japan positively impacted relative performance.

In terms of sector allocation, the first quarter's pure reflationary dynamic gave way to a more mid-cycle fundamental-driven pattern of returns. This was particularly the case of Value versus Growth, given the fall in yields towards the middle of the quarter, and consequently, the Technology sector was a standout outperformer over the period. Within this context, the fund's absolute returns were boosted a number of its Disruptive Innovation holdings, including **PayPal, Salesforce** and **Palo Alto Networks,** which were all buoyed by better-than-anticipated trading updates as well as the broader market rotation into growth and quality. However, the fund's holdings in the Technology sector failed to keep pace with the broader group's returns and an underweight allocation the space exacerbated underperformance.

Meanwhile, it was also a notably strong quarter for the fund's circular economy holdings, with **Biffa** shares rallying by more than 22% after a slew of positive updates, which included the acquisitions of Viridor's collections and recycling business. Meanwhile in Australia, building waste recycler **Bingo Industries** received confirmation of a $3.50 per share bid from Macquarie Infrastructure lifting shares 12.5% over the quarter.

In terms of investment activity, the quarter began with the initiation of a position in the renewable-focused electric utility **SSE**, which as the second-largest offshore player in the UK, is (in our view) well-placed to execute its just transition strategy, particularly capitalising on the large-scale capacity additions to the offshore market over the next decade. The fund also established a position in health care technology leader **Koninklijke Philips**, which as an innovator of more advanced and economical medical technology, is (in our view) well-placed to meet the world's growing health care needs. Finally, towards the end of the quarter, the fund added to its Future Mobility exposure by establishing a new position in **Sensata Technology**, a global leader in sensors and controls that enhance the safety, efficiency and environmental footprint of complex industrial environments such the automotive, agriculture, construction, health care sectors.

OUTLOOK

The global economic outlook continued to improve over the quarter, as COVID-19 vaccination programs ramped and real world data showed vaccines reducing transmission and hospitalisation numbers. For the remainder of 2021, the outlook will be largely dominant upon two interconnected factors, the first being the continued progress to move beyond the pandemic and secondly the extent of fiscal and monetary stimulus.

Whilst many developed countries have made substantial progress in vaccinating their populations, vaccine protectionism and nationalism has so far hampered efforts for many developing countries. On a global basis only 10% of the worldwide population is fully vaccinated. New variants, such as the Delta variant that first appeared in India, will remain a threat to ending the pandemic through continued circulation. Encouragingly though, the supply of vaccines continues to improve and distribution should become more equitable moving forward to aid a truly global recovery. We foresee the recovery continuing overall but could still be a bumpy road and highly varied on a country-by-country basis.

In terms of the outlook for fiscal stimulus, at the end of the second quarter, President Biden announced that he had secured bipartisan agreement on an Infrastructure package worth $1 trillion, somewhat slimmed down relative to the $2.3 trillion plan announced in March 2021 and did not address the $1.8 trillion in social safety-net spending that the US president proposed in April. While smaller than previously anticipated, the Plan remains ambitious, focussing on building greener and more resilient infrastructure, and in doing so creating millions of jobs. The Plan reflects the President's goals for zero-carbon electricity by 2035 and net zero emissions by 2050, with specific goals of deploying 30GW of offshore wind by 2030.

We anticipate monetary policy will remain loose over the short term as central banks have sought to downplay the risks of inflation, despite rising inflation expectations. The willingness to begin withdrawing this level of monetary policy is dependent upon the extent of the economic recovery, which in itself is tied to the success of vaccine roll-outs, and resulting easing of restrictions. Further increased demand from economic recovery could broaden the impact of supply-side inflationary pressures that have already been witnessed in sectors such as construction and semi-conductors in the first half of this year. Accelerating demand on the back of depleted inventory levels and double/excess ordering, heightens the tail-risk of an inflation spike. While historically a lagging indicator, inflation may yet spike materially on this supply-demand imbalance. With this dynamic, one could argue that the Fed's strategy of waiting for signs of inflation to appear stickier is a little too reactive. Should these circumstances eventuate it's likely the market will perceive the central bank as behind the curve and reprice faster and to a greater extent than the Fed would wish. The outlook for wage inflation remains key in terms of feedback loops, with the re-opening of the hospitality and broader service sector potentially most constrained by a lack of available staff due to attractive benefits from ongoing pandemic unemployment relief programs. With many US States ending this support earlier than planned, the Fed's additional mandate of targeting full employment may be increasing emphasised.

We retain the view that the environment for sustainable investing has never been more supportive. From a stimulus perspective, most major economic powers have enacted stimulus directed to enabling a lower carbon economy. Clearly there remains significant work to meet the long-term goals set out in the Paris Agreement but it appears the broader population are increasingly supportive of climate action. As significant incremental capital is channelled towards sustainable challenges, we remain acutely aware that we must retain a healthy valuation discipline while recognising the scarcity context.