RESPONSIBLE AND SUSTAINABLE MULTI-ASSET CAUTIOUS

COMMENTARY FOR QUARTER TO END MARCH 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-5.98%	-5.33%				
IA Mixed Investment 20-60% Shares	-3.38%	-1.56%				
Sector Quartile	4	4				

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

REVIEW

The first quarter of 2022 was challenging for both bond and equity markets. The Russian invasion of Ukraine 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, and oil and gas prices rose sharply. Further to this, there was a resurgence of Covid-19 infections in China.

Consumer price inflation rose to multi-decade highs in the US, UK, and the Eurozone. With the exception of the European Central Bank, central bankers around the world took action to target this rising inflation, with rate rises in the US and UK. In fixed interest markets, US 10-year Treasury yields rose to 2.4%, and 2-year yields rose to 2.3%. The UK 10-year yield rose to 1.6%, and the 2-year to 1.4%. Generally long duration securities materially underperformed shorter duration ones as yield curves flattened and, in the US, briefly inverted. The FTSE Actuaries Government Securities UK Gilts TR Over 15 Year index returned -12.3% for the quarter, and the FTSE Actuaries UK Conventional Gilts up to 5 Years index returned -1.4%. Perhaps most notably, the German 10-year yield went from a negative yield to a positive yield of 0.6%. Credit spreads widened, with high yield spreads widening more than investment grade. In equity markets, there was an initial rotation towards defensive investments, but ultimately all sectors declined apart from those whose revenues derived from rapidly rising commodity prices. Value stocks generally outperformed growth stocks, with energy and utility stocks generating the strongest performance.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Cautious Fund declined over the quarter, generating a return of -6.0%. Its IA Mixed Investment 20-60% Shares benchmark also declined, generating a return of -3.4%

The EdenTree Responsible and Sustainable Multi-Asset Balanced Fund declined over the quarter, generating a return of -6.6%. Its IA Mixed Investment 40-85% Shares benchmark also declined, generating a return of -3.7%

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund declined over the quarter, generating a return of -7.4%. Its IA Mixed Investment 40-85% Shares benchmark also declined, generating a return of -3.7%

Given the falling market, it is not surprising that it was the Cautious Fund in the range that delivered the most robust performance of the three, although all declined over the quarter. Once again, stocks exposed to sharply rising commodity prices – oil and gas in particular – led the market. Given our responsible and sustainable approach, we had no direct exposure to conventional energy investments. All of the funds in the range declined steadily over the first two months of the period under review, as did most fixed interest markets generally and most global equity markets apart from those with strong exposure to oil and gas. A week or so into March, market focus turned towards surging Covid cases in China, and concerns that new lockdowns there could threaten global demand, bringing oil prices down again. This ultimately changed market dynamics in such a way that some of the stocks that had declined over the quarter were able to recover some of their losses. The funds participated in this recovery towards the end of the period.

Despite UK markets outperforming, our overweight allocation to the UK did not help overall performance, because UK market returns were driven by stocks with exposure to oil, gas, or mining, which we do not hold. As such, UK equities provided our biggest area of relative underperformance. While declining on an absolute basis, our European equities generated strong outperformance relative to the overall portfolio, and relative to local benchmarks, with holdings such as Carrefour, Orange, and Telefonica standing out in particular. Our impact bond portfolio, and holdings with

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exposure to energy prices, such as Greencoat UK Wind, generated positive returns over the quarter.

Towards the end of the period, we slightly moved our tactical asset allocation in favour of remaining overweight equities, but went shorter duration fixed interest. We slightly adjusted our alternatives allocation to favour infrastructure holdings.

OUTLOOK

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. 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 under threat from the commodity supply shock caused by the war in Ukraine and the threat to economic activity from rising Covid-19 infections in China. This presents a challenging investment environment, but we believe our diversified multi-asset portfolios are well placed to weather the storm. We continue to view our shorter relative duration profile as appropriate, and will take advantage of our ability to increase cash levels as necessary to enhance liquidity while preserving capital

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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