RESPONSIBLE AND SUSTAINABLE MANAGED INCOME FUND

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-4.49%	-6.12%	-1.62%	8.93%	16.85%	82.24%
FTSE AllShare TR GBP	-5.04%	-4.57%	1.64%	7.41%	17.77%	94.61%
IA Mixed Investment 40-85% Shares	-7.45%	-10.86%	-7.17%	9.08%	18.78%	87.50%
Sector Quartile	1	1	1	3	3	3

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

REVIEW

The second quarter of 2022, like the first, was challenging for both equity and bond markets. Developed market equities have delivered some of the steepest declines since the start of the Covid pandemic, and government bonds have fallen in lockstep, as central banks have come around to the need to raise rates in response to very high inflation. It is difficult to see how this inflation could have come as a surprise to central bankers, as inflationary pressures were already widespread, showing up in everything from raw material prices and semiconductors to shipping, combined with widespread labour shortages – long before the Russian invasion of Ukraine brought everything to a head. Inflation has now squeezed consumers to the point where the potential for stagflation – a recession combined with supply-driven inflation – has risen significantly. This in turn deepens negative investment sentiment, creating a very challenging investment backdrop.

June saw the US Federal Reserve raise its benchmark interest rates by 75 basis points in its most aggressive rate hike since 1994, meaning the central bank is now targeting a range of 1.5% to 1.75%. The US 10-year Treasury yield rose to 3.0% from 2.4%. The Bank of England also raised rates over the quarter, taking the Bank Rate to 1.25%. The UK 10-year yield increased to 2.2% from 1.6%. Corporate bonds underperformed government bonds as spreads widened, with high yield credit bearing the brunt. Within equity markets, value continued to outperform growth, and traditionally defensive sectors, such as consumer staples, healthcare, and telecoms, outperformed consumer discretionary and technology names.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Managed Income Fund declined over the course of the quarter, generating a return of -4.5%. This nevertheless represents first quartile performance within its IA Mixed Investment 40-85% Shares sector, which declined by 7.5% over the quarter. The fund also outperformed the FTSE All-Share Index, which declined by 5.0%.

In terms of asset allocation, the fund benefited from its high weighting to the UK, which generally outperformed global equity markets over the quarter, but the majority of outperformance came from stock selection within overseas equities, where the European portfolio generated outright positive returns in a down market. The top contributors were European telecoms companies Telefonica and Orange. Both companies have likely passed peak requirements for capital expenditure, which is beneficial for cash earnings potential. Both are also benefiting from increased likelihood of consolidation in the sector. We also saw very strong share price performance from Standard Chartered, which delivered impressive quarterly earnings, raised FY2022 guidance, and indicated it might achieve its target of generating a higher than 10% return on tangible equity before 2024; with the bank trading at about half of its accounting book value, we believe there should be further upside from here and continue to hold the stock.

As responsible and sustainable investors, we have no direct exposure to oil and gas, but still benefited from rising energy prices through holdings in companies such as Greencoat UK Wind, the Renewables Infrastructure Group, and Harmony Energy Income Trusts. The biggest detractors this quarter were Jackson Financial, TUI, and Greatview Aseptic

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About six months ago, we increased exposure to defensive stocks after these were left behind in a cyclically led rally. We have now taken profits in some of these, and recycling these investments into some of the opportunities arising from the broad fall in equity markets. This quarter, we opened new positions in Zimvie and Rexel. Zimvie is a US med-tech company specialising in spinal and dental implants, which may benefit from increased nimbleness and capacity for innovation after being spun out of Zimmer. The company is, in our view, under-researched and under-appreciated, trading on single-digit multiples of forward earnings. Rexel is an electrical equipment distributor, which should benefit from faster roll-out of renewable energy, and is also trading on a single digit forward PE.

OUTLOOK

The prospect of higher inflation, higher interest rates, and slowing growth undoubtedly represents a challenging outlook for investors, but we feel the fund is well placed for this environment. The fund is overweight banks and insurance companies, which are now really beginning to benefit from higher interest rates and bond yields. The fund also generally benefits from a diverse range of high-yielding investments across the UK and global equity markets, fixed interest markets, as well infrastructure funds and property REITS.