RESPONSIBLE AND SUSTAINABLE MANAGED INCOME FUND

COMMENTARY FOR QUARTER TO END SEPTEMBER 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-9.2%	-13.3%	-11.0%	-1.7%	4.3%	54.9%
FTSE All Share TR GBP	-3.4%	-8.3%	-4.0%	2.4%	11.3%	79.5%
IA Mixed Investment 40-85% Shares	-2.1%	-9.3%	-10.3%	4.7%	15.2%	75.6%
Sector Quartile	4	4	3	4	4	4

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

REVIEW

Global stock and bond markets were volatile during the third quarter of 2022. The US Federal Reserve continued its programme of policy tightening with an increase in the fed funds rate by 1.5%. And Chair Jerome Powell quashed market expectation of a dovish pivot by stressing the Fed's intention to "keep at it until the job is done". This stance underpinned a further rise in the US dollar, a safe-haven currency during times of distress, and fanned expectations of a global recession.

Europe's economy, meanwhile, continued to struggle under the weight of the war-induced energy crisis, with the Nord Stream gas pipelines shutdown and subsequently damaged, presumably through an act of sabotage. Regional inflation hit 10% in September and the ECB embarked on its first rate increases since 2011. In the UK, CPI hit 10.1% in August and the Bank of England, which appeared to be behind the curve, raised its base rate to 2.25%. The UK government's September "mini" budget was a source of ructions late in the period, pushing the pound and gilt markets lower and exposing cracks in the UK defined-benefit pension sector which had used derivatives in liquidity driven liability schemes. In bond markets, the US 10-year Treasury yield rose to 3.8% from 3.0%, while the UK 10-year gilt yield increased significantly from 2.2% to 4.1%. Corporate bond spreads continued to widen, with high yield credit once again bearing the brunt. Falls in many major stock indices this quarter nudged many major markets into bear market territory (i.e., losses of over 20%) over the year to date. Growth slightly outperformed value, in part due to expectations of a Fed policy pause. Individual sector performances were mixed with consumer discretionary and consumer staples, as well as energy, outperforming, while utilities, telecoms and materials underperformed.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Managed Income Fund declined over the course of the quarter, generating a return of -9.2%. The Fund underperformed both its IA Mixed Investment 40-85% Shares sector, which declined by 2.1% over the quarter and the FTSE All-Share Index, which declined by 3.5%.

In terms of asset allocation, the Fund's high weighting to the UK proved the largest drag on relative returns, while its overseas, especially European, equities exposure was also an impediment. Although the fixed income portfolio lost ground in absolute terms, this portfolio of UK assets strongly outperformed the market due to its short duration, high-quality focus, and was net positive for relative performance.

At the stock level, the largest negative contributors included Spain's Telefonica, which ended lower on concern about the impact of rising interest rates on its debt, and UK-listed businesses BT Group, GSK and Synthomer. The latter was a Covid beneficiary which lost ground after warning that the slowdown in its nitrile business for medical gloves was worse than expected. Meanwhile, the large upward move in UK bond yields at the end of the quarter was negative for UK green listed infrastructure investments. Positive contributors included Simplo Technology, a lowly valued Taiwanese lithium battery business whose shares have been held back by wider geopolitical and economic concerns, despite the solid return profile of the business. Jackson Financial (Life Insurance) and Roche Holdings (Healthcare) also made positive contributions to performance.

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In terms of transactions, we continued to build the positions in Zimvie and Rexel. US med-tech company Zimvie, which was spun out from Zimmer, specialises in spinal and dental implants, while Rexel is an attractively valued electrical equipment distributor that is well placed to benefit from faster roll-out of renewable energy. Hengan International, which is a defensive Chinese personal hygiene company with a dividend yield of about 5%, was added to the portfolio. To fund these purchases, we reduced and/or completely exited positions in US pharmaceutical company Bristol-Myers Squibb, Standard Chartered and Cordiant Digital Infrastructure, among others.

OUTLOOK

The political backdrop in the UK has effectively brought a number of pre-existing economic pressures to the fore, including those associated with asset allocation strategies for UK defined benefit pension schemes. The ensuing turbulence in bond markets has required Bank of England intervention and has placed pressure on the government to step back from some of its unfunded fiscal plans. The government has also mooted plans to cap revenues of alternative energy providers. While this has created uncertainty for listed green infrastructure, we believe this is largely reflected in the price of these investments, which now appear more attractive on a longer-term view.

While cautious about the backdrop, especially as interest rates still have further to rise, we remain alive to the opportunities across both equities and bonds to invest in assets that have been unduly de-rated and where risk-reward profiles are starting to tilt in favour of longer-term investors. Notwithstanding the challenging backdrop, the Fund is well diversified and in a strong position to deliver as economic and financial conditions improve.

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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