RESPONSIBLE AND SUSTAINABLE UK EQUITY 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)	1.19%	5.23%	15.11%	37.62%	36.23%	141.74%
FTSE AllShare TR GBP	4.20%	6.51%	18.32%	27.16%	30.19%	110.70%
IA UK All Companies	2.14%	4.92%	17.15%	34.50%	36.30%	131.89%
Sector Quartile	3	3	3	2	2	2

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

REVIEW

The UK markets performed well in the quarter despite the discovery of the Omicron variant as investors largely believed that the economic recovery would not be derailed whilst the US markets also performed well. President Biden continued with attempts to implement his policy agenda with the passing of a bipartisan infrastructure bill into law although attempts to pass other elements of the Build Back Better agenda have ran into opposition from within his own party. Jay Powell was nominated as chair of the Federal Reserve for a second term by President Biden. The Federal Reserve announced that it was ending its asset purchase programme in March 2022 as part of a hawkish pivot and away from ultra-loose monetary policy with a signal for interest rates rises in 2023.

The UK government won a series of votes in Parliament, albeit with many Tory MPs rebelling, on “Plan B” measures to contain the spread of the Omicron variant which include work from home guidance, mandatory mask wearing and a requirement for a negative test or vaccine certificate to enter mass events. The Bank of England originally surprised financial markets by not raising interest rates in November but then surprised them again with members voting 8-1 to raise interest rates to 0.25% due to concerns over inflation in the medium term. There was also a unanimous vote to end the programme of quantitative easing as planned at the end of December. The UK indices were in positive territory in the quarter with the FTSE 100 performing relatively better than the FTSE 250 and FTSE small cap.

Elsewhere, the oil price was volatile in the period largely over fears of the Omicron variant potentially impacting demand for oil. Various European countries have reimposed restrictions in order to contain the spread of the Omicron variant. The European Central Bank announced that it would scale back its bond buying programme although it committed to continuing asset purchases for at least ten months and indicated it would not raise interest rates in 2022.

PERFORMANCE & ACTIVITY

Fund performance was aided by overweight positions in Pharmaceuticals & Biotechnology and underweight position in Travel & Leisure. The zero exposure to Mining and Aerospace & Defence was another tailwind. Overweight positions in Industrial Transportation and Retailers and underweight positions in Banks and Utilities impacted performance. At a stock level, Clinigen (Healthcare), Oxford Instruments (Industrials) and Halma (Industrials) were amongst the biggest contributors to performance, whilst detractors included James Fisher & Sons (Industrials), Sabre (Insurance), Genus (Consumer Staples) and Strix Group (Consumer Staples).

Fund activity included topping up Mattioli Woods, Strix Group, NCC, Lloyds Banking Group, Bioventix, Oxford Instruments, AstraZeneca, Prudential, National Express, Close Brothers, Mears, Rentokil, Impax Environmental Markets and Marshalls. New positions included Checkit, XP Power and Wise. The holdings in JLEN, Arix Bioscience and Johnson Matthey were sold off entirely.

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OUTLOOK

The discovery of the Omicron variant and its impact on infection rates and hospitalisations will contribute to policymakers' decision making on the level of restrictions that are required which could see further labour shortages and supply chain disruption. The impact on business confidence and consumer sentiment will also be important and could have a significant impact on economies around the world. Mistrust still exists between the UK and EU, and despite the resignation of Brexit minister David Frost, the Northern Ireland protocol is likely to see continuing tensions between both sides. Record wholesale gas and electricity prices have seen several energy retailers collapse and could lead to a rise in the cost of living and have negative implications on consumer spending. European economic activity is likely to be impacted by restrictions reimposed in various European countries in response to the Omicron variant. President Biden will continue in his attempts to pass his policy agenda through Congress although this will be tough given the wafer thin majorities held by the Democrats in both houses of Congress. Central bankers around the world have indicated that interest rates will rise and asset purchase programmes will be tapered in order to combat inflation and the economic impact of less accommodative monetary policy remains to be seen. While, as ever, some political and economic risks lie ahead, we remain focused on finding new opportunities in companies that meet our strict criteria of strong earnings growth, high margins and strong cash flows. The Fund's focused and disciplined investment strategy has delivered material outperformance versus the FTSE All Share over 3, 5 and 10 years.

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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Firm Reference Number 527473.