

RESPONSIBLE AND SUSTAINABLE UK EQUITY OPPORTUNITIES 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)	9.71%	17.35%	35.69%	21.05%	80.42%	200.28%
FTSE All Share TR GBP	5.60%	11.09%	21.45%	6.28%	36.86%	85.47%
IA UK All Companies	5.57%	11.65%	27.35%	10.86%	48.25%	102.71%
Sector Quartile	1	1	1	1	1	1

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

REVIEW

The UK markets performed well in the quarter largely due to the continuing successful vaccine rollout and gradual loosening of lockdown restrictions which has led to improved economic recovery whilst the US markets also performed well. President Biden continued with attempts to implement his policy agenda most notably with his bipartisan attempts to pass a large infrastructure bill. The Federal Reserve provided mixed messages regarding the future path of interest rates with the strong economic recovery leading to expectations of two interest rate rises in 2023 although Federal Reserve Chairman Powell was eager to play this down.

The UK gradually began its path out of lockdown restrictions although the prime minister announced a delay in the move to step four of the government's coronavirus easing plan, which would have led to a full reopening in England, due to the rapid spread of the Delta variant. The Bank of England unanimously voted to maintain interest rates, and by a margin of 8-1 the pace of quantitative easing whilst also upgrading the outlook for the UK economy. The vaccination rollout programme continued apace with a large proportion of the population having had their first vaccine dose. Following rising tensions between the UK and the EU regarding the Northern Ireland protocol, the European Commission approved a three month extension to a grace period on restrictions on chilled meat exports into Northern Ireland. The UK indices were in positive territory in the quarter with the FTSE small cap performing relatively better than the FTSE100 and FTSE 250.

Elsewhere, the oil price was strong in the period, due to positive vaccine rollout news and demand recovering strongly. The quarter saw falling infection levels and lockdowns being lifted in Europe and the vaccine rollout gathered pace after a slow start. Despite increasing forecasts for Eurozone growth and inflation, the European Central Bank announced that it would maintain the pace of its bond purchase programme.

PERFORMANCE & ACTIVITY

Fund outperformance was aided by overweight positions in Industrial Transportation and Software & Computer Services and underweight positions in Banks and zero exposure to Tobacco. Overweight positions in Life insurance and underweight positions in Beverages impacted performance. At a stock level, Future (Media), Liontrust (Financials), Dechra (Health Care), and Frontier IP (Financials) were amongst the biggest contributors to performance whilst detractors included Renishaw (Industrials), On The Beach (Consumer Discretionary), SSP (Consumer Discretionary) and Frontier Developments (Video Games).

Fund activity included starting a position in Mattioli Woods, a provider of pension consultancy and wealth management services, FDM, which recruits, trains and deploys IT consultants into clients and Hollywood Bowl, an operator of ten-pin bowling centres. We increased our positions in Ashmore, NCC, On The Beach and Actual Experience. We took part in a share placing for Sosandar which was used to fund future growth plans. We took profits in Prudential, Sumo, Knights, Essensys, Frontier Developments, Liontrust, Ashtead, Global Data, and Frontier IP. We sold out of Abingdon Health, Morses and Cerillion. Despite the market's volatility we continue to find companies meeting our demanding criteria of business models that can generate earnings growth across the economic cycle.



OUTLOOK

Despite the three month extension to the grace period, mistrust still exists between the UK and EU and the Northern Ireland protocol is likely to see increasing tensions between both sides. All signs point to most lockdown restrictions being lifted in the UK on July 19 which could see stronger than expected economic performance but also increasing infection rates which could prove problematic if it leads to increasing hospitalisation rates. Government funding of the furlough scheme will begin to be tapered and coupled with the withdrawal of other government support measures could prove challenging for businesses. European economic activity is likely to be strong as the vaccine rollout programme improves following a slow start. 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 will continue in their quest to ascertain whether the current inflationary environment is transitory or permanent and this will have implications for the future path of interest rates and support programmes. 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 over the FTSE All Share over 1, 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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