Q4 2020 COMMENTARY
UK EQUITY GROWTH FUND

QUARTER TO END DECEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	16.33%	15.63%	-4.66%	8.46%	33.52%	168.75%
FTSE All Share TR GBP	12.62%	9.33%	-9.82%	-2.71%	28.46%	71.91%
IA UK All Companies	15.24%	14.10%	-6.14%	2.04%	29.13%	84.29%
Sector Quartile	2	2	2	1	2	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 development of several viable vaccines as well as the expectation and, finally, the resolution of a UK-EU trade deal whilst the US markets also performed well. Joe Biden won the US presidential election by a comfortable margin although President Trump continues to dispute the result. The Federal Reserve continues to operate a dovish monetary policy with asset purchases in place for a longer period of time.

Following arduous negotiations, the UK and EU finally agreed to a trade deal. The MPC unanimously voted to hold interest rates and further extended the level of quantitative easing whilst also extending its funding scheme for banks' lending to small businesses. The chancellor extended the job support scheme which is now due to expire in March 2021. Despite a breakthrough in the development of new vaccines, the prime minister announced new lockdown measures due to the rapid spread of coronavirus. Large areas of England were moved into the tougher tier 4 guidelines where non-essential retail outlets are closed and household mixing is banned. The UK indices were in positive territory in the quarter with the FTSE small cap performing relatively better than the FTSE 100 and FTSE 250.

Elsewhere, the oil price was strong in the period, as positive vaccine rollout news and the potential of normalised demand outweighed fears over increased oil inventories. The quarter was dominated by coronavirus with large parts of Europe imposing stricter lockdown measures. The President of the European Central Bank (ECB), Christine Lagarde, announced that the emergency bond-buying program would be expanded and extended.

PERFORMANCE & ACTIVITY

Fund outperformance was aided by overweight positions in Media and Life Insurance and underweight positions in Pharmaceuticals and Tobacco. Overweight positions in Support Services and Software and underweight positions in Banks and Oil & Gas impacted performance. At a stock level, SSP (Consumer Discretionary), Applegreen (Filling Stations), Sumo Group (Video Games), and Urban & Civic (Real Estate) were amongst the biggest contributors to performance whilst detractors included Future (Media), Global Data (Media), Knights (Professional Services) and GlaxoSmithKline (Health Care).

Fund activity included starting a position in Ashmore, a specialist Emerging Markets investment manager, B&M, a general merchandise discount retailer, Advanced Medical Solutions, a healthcare company, Sage, an accounting and payroll software company, AstraZeneca, On The Beach, an online retailer of beach vacations, Aquis Exchange, an exchange services group, James Halstead, a manufacturer and distributor of commercial flooring, Games Workshop, a manufacturer and retailer of miniatures, S4 Capital, a media company, JD Sports, Auto Trader, a digital automotive marketplace, Cerillion, a telecommunications software solutions company and IG Design, a manufacturer and supplier of greeting products. We took part in the IPO of Abingdon Health, a lateral flow diagnostics company and increased our position in Liontrust. Urban & Civic and Applegreen were subject to acquisition bids. We took profits in Ashtead, Smith & Nephew, Next, Urban & Civic, Applied Graphene Materials, Smart Metering Systems and Bellway and sold out of British American Tobacco, Rio Tinto and Applegreen, Provident Financial and ITV. 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.

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OUTLOOK

The UK and EU finally agreed to a trade deal which removes the spectre of a potentially disastrous no deal. However, businesses exporting to the EU will have to get used to increased bureaucracy and checks in the form of customs declarations. The prime minister announced new stricter lockdown restrictions in certain areas of the country and this will likely continue until at least a large proportion of the population is vaccinated. The imposition of new restrictions is likely to impair economic activity and the chancellor will have to walk an economic tightrope between balancing measures to stimulate the economy whilst being careful with the fiscal position. The chancellor extended the job support scheme but another cliff edge will arise at the end of March 2021 with the spectre of increased unemployment. European economic activity is likely to be uneven and accompanied by coronavirus flare ups. The state of Georgia is due to have two Senate run-offs with control of the Senate at stake. The outcome could play a large part in shaping Joe Biden's presidency. 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.

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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