

GREEN FUTURE FUND

COMMENTARY FOR QUARTER TO END SEPTEMBER 2022

PERFORMANCE

	3 Months	6 Months	ITD*
Fund Performance (B Class)	3.4%	-7.8%	-6.1%
FTSE World TR GBP	1.8%	-7.4%	-3.5%
IA Global	2.5%	-8.0%	-5.2%
Sector Quartile	2	2	2

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

*Inception to Date

REVIEW

Global equity markets ended the third quarter of 2022 in positive territory, although returns for UK investors were enhanced by the strength of the US dollar against sterling. This masked a broadly volatile period during which inflation climbed higher and the US Federal Reserve maintained its staunchly hawkish policy stance, lifting rates by a further 1.5% and increasing the prospect of a global recession. With the war in Ukraine continuing and the Nord Stream gas pipelines cut off, the energy crisis continued to weigh on Europe's economy. Meanwhile, Liz Truss's first weeks as UK prime minister were volatile, with the "mini" budget unveiled by her new Chancellor Kwasi Kwarteng rattling markets in late September. US equities notably outperformed, while indices in Europe and the UK ended in negative territory.

On the Green Revolution front, US policymakers passed the Inflation Reduction Act (IRA) during the quarter, a fiscal package which seeks to accelerate the energy transition and fight climate change via spending initiatives and incentives that total \$374bn for various clean energy technologies, such as renewables, energy storage, electric mobility, hydrogen, as well as providing additional support to develop local manufacturing capabilities for these technologies.

PERFORMANCE & ACTIVITY

Against this backdrop the EdenTree Green Future Fund returned 3.4%, outperforming both the FTSE World TR Index and IA Global peer group. The Fund benefited from its allocation to Water Management, with holdings such as Advanced Drainage Systems and Xylem performing strongly

after delivering solid quarterly results which demonstrated resilient levels of growth in challenging operating conditions. Absolute and relative returns were also boosted by the Fund's allocation to Alternative Energy, with holdings such as Alfen Beheer and Prysmian continuing to outperform corporate and consensus expectations during the Q2 2022 earnings season.

Conversely, in the Circular Economy solutions theme, the Fund was negatively impacted by the performance of holdings such as Borregaard, Renewi and Befesa, as continued inflationary pressures and concerns surrounding a potential economic slowdown continued to weigh on segment.

Within Alternative Energy, we trimmed the allocation to Alfen Beheer following a sustained period of strong share price performance and we added to an existing position in SolarEdge Technologies, a global leader in high-performance technologies for solar energy infrastructure. Within Energy Efficiency, we reduced the Fund's position in A.O. Smith, as we grew increasingly concerned about the outlook for corporate earnings in the near-term amid a period of sustained inflationary pressures alongside a potential economic slowdown. Within Water Management, we trimmed the Fund's position in Advanced Drainage Systems following a sustained period of strong share price performance.

Overall, we are using this period of increased volatility to scour the market for competitively advantaged businesses to add to our portfolio that may offer superior risk adjusted return potential.



OUTLOOK

It goes without saying that this remains a highly uncertain period for global financial markets. Deepening geopolitical tensions are having real world consequences in terms of global trade. Nearshoring is no longer just a matter of improving the security of supply against shocks such as the Covid pandemic, but has become a matter of national security, with a battle now firmly in play between the US and China, for example, around the production and trade in leading edge technology, which is having an impact on the supply chain for semi-conductors, the trailing edge technology used in mobile phones and automobiles. Similarly, energy remains a powerful weapon in the current geopolitical rift. This extends beyond Europe, with OPEC+ voting to reduce the supply of oil to keep prices high which will have obvious economic consequences for the West. These are proxy battles that will take a great deal of time to work.

Meanwhile, the message from the Federal Reserve remains unwavering and the tightening cycle is likely to push the global economy into recession to bring demand down to meet constrained levels of supply.

There is not an easy backdrop for asset markets, or indeed the Fund, in the short term. However, we continue to believe that many of the pressure points around energy ultimately will lead to significant lift in the development of new renewable energy infrastructure and will increase the move towards greater energy efficiency. The Inflation Reduction Act in the US is a major milestone for the energy transition and is the REPowerEU plan. Renewables are crucial for tackling climate change and creating a more sustainable economy – and “energy security” falls squarely within those aims. Moreover, while company outlooks have become more muted against the challenging backdrop, market valuations in some cases have become overly pessimistic, creating opportunities for our long-term approach to investing.

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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