

PERFORMANCE

	3 Months	6 Months	ITD*
Fund Performance (B Class)	3.4%	6.9%	-2.9%
FTSE World TR GBP	2.3%	4.2%	-1.3%
IA Global	2.2%	4.0%	-3.8%
Sector Quartile	2	1	2

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. *Inception: 24 Jan 2022

MARKET REVIEW

Global stock and bond markets rebounded strongly in the final quarter of 2022. The prospect of peak inflation and a moderation in the Federal Reserve's tightening cycle were the main catalysts for the lift in the market's mood. Currency movements once again played an outsized role in returns of offshore markets in sterling terms, with the US dollar losing ground, and market gains were not shared equally, with the NASDAQ a notable laggard. Overall, the conditions felt like a relief rally, driven in part by short covering, rather than a more meaningful risk-on episode. Indeed, any sense of ebullience had already peaked by Christmas, with markets in December generally drifting lower.

The FTSE World Index rose 1.4% in sterling terms but was up 10.3% in local currency terms. Over 12 months, the index returned -7.8% in sterling terms which translated to a return of -17.6% in local currency terms. The FTSE All-Share climbed 8.9% to end the year a modest 0.2% up, with its strong standing over the year supported by the resurgent energy and mining sectors. Meanwhile, European bourses bounced strongly during the quarter, with the FTSE World Europe Index ex UK climbing 11.6% in sterling terms, with the index ending the year with a return of -7.3%. The mood in the US, however, was less rapturous. The S&P500 Index climbed 7.6% in US dollar terms during the quarter (returning -18.1% over the year) but was down 1.1% in sterling terms. The NASDAQ, meanwhile, ended the quarter down 0.8% in US dollar terms, cementing a -32.5% loss in 2022. In sterling terms, the NASDAQ returned -8.7% in Q4. An easing of Covid restrictions in China drove a cautious lift in the Hang Seng and Shanghai indices late in the quarter. Japan's Topix Index, meanwhile, returned 4.9% during the quarter, marking an annual return of -4.4%.

On the Green Revolution front, in December, governments and world leaders met in Montréal for the 'Biodiversity COP', COP15. After nearly two weeks of fraught discussions, which saw a walkout by developing countries, a new Kunming-Montreal Global Biodiversity Framework (GBF) to 2030 was adopted. However, its ambition level was somewhat muted, with only a handful of numerical targets agreed and many decisions pushed to future discussions. The delayed completion of COP15 (by two years) means there are only seven years left to implement this GBF with the next talks (COP16) slated for 2024.

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 Regenerative Agriculture, with holdings such as Valmont Industries and Bucher Industries 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 SolarEdge Technologies and Prysmian continuing to outperform corporate and consensus expectations during the calendar year third quarter earnings season.

Conversely, in the Energy Efficiency solutions theme, the Fund was negatively impacted by the performance of holdings such as Regal Rexnord and Acuity Brands, as continued inflationary pressures and concerns surrounding a potential economic slowdown weighed on the segment. Additionally, relative returns were negatively impacted by an underweight allocation to the traditional Energy sector (the strongest performing cohort over the three-month period), as many of the industry's incumbents reported stronger-than-anticipated third quarter results during the period.

In terms of investment activity over the course of the quarter, within Regenerative Agriculture we trimmed the Fund's allocation to Valmont Industries following a sustained period of strong share price performance. Additionally, within Alternative Energy, we added to an existing position in Hannon Armstrong Sustainable Infrastructure Capital, a leader in debt and equity financing to the energy efficiency and renewable energy markets in the United States. The Fund also established a new position in Ansys, a global leader in engineering software, which is used by companies across many industries (including electric vehicle producers, medical device manufacturers and renewable energy infrastructure companies) to design and develop more productive, economical and safer sustainable solutions. 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

The current uncertainty surrounding the global macroeconomic outlook creates the potential for further volatility in equity markets in the months ahead. The uncertainty largely relates to the outlook for economic growth and the increasing possibility that broad-based inflationary pressures, if sustained, could lead to greater-than-anticipated demand destruction, and a broad softening in the global economic backdrop. Additionally, persistent inflation and materially higher bond yields could lead to further multiple compression within risk assets. While this has unwound to some degree in recent months, we do still see vulnerability to a further normalisation in interest rates for those companies where profitability remains a distant potential and where valuation is not underpinned by cash flow expectations. There is also the possibility of policy error (tightening into a slowing economy) or stagflation (perhaps forcing the hand of central banks).

While we are tactically cautious over the near-term, reflective in a larger-than-usual cash balance on the Fund, we remain constructive on the long-term outlook for environmental solutions globally. We believe that we remain at the nascent stages of a climate-focused industrial revolution, as governments, corporates and consumers increasingly seek renewable sources of energy generation, circularity, as well as cleaner, safer and more reliable sources of key resources such as food and water. The recently initiated Inflation Reduction Act (IRA) in the US and the REPowerEU initiative represent major milestones for this pervasive, multi-decade investment opportunity. Moreover, while company outlooks have become more muted against the challenging backdrop, market valuations in some cases have become overly pessimistic, creating compelling opportunities for our long-term investment approach.

Green Future Fund

Q4 2022 Commentary



Performance
with principles®

For further information please speak to your normal EdenTree representative, visit www.edentreeim.com or call our support team on **0800 011 3821**

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass. Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested.

Past performance is not necessarily a guide to future returns.

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Benefact House, 2000, Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, United Kingdom.

EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association.

Firm Reference Number 527473.