EdenTree Green Infrastructure Fund

Q1 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	-8.7%	-2.6%	-14.0%	-13.3%
IA Infrastructure**	-1.6%	5.3%	-3.0%	-6.7%
Sector Quartile	4	4	4	4

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

MARKET REVIEW

Inflation continued to be the main focus for most of the market in the first quarter of the year. Many market participants started the year expecting deep and frequent rate cuts throughout 2024, but the rhetoric from central bankers tended to focus on rate cuts being dependent on inflation more consistently trending down, which is not what transpired. In the US, inflation overshot consensus expectations in January while Eurozone inflation eased only slightly, setting the tone for more uncertainty. The UK, on the other hand, did see declining inflation, but it is rare for the Bank of England to cut rates before the Fed, so this failed to have much positive effect on market sentiment. Both central banks kept rates on hold over the quarter, as did the ECB. Sector sentiment was also kept subdued by declining forward power prices in the UK, not reflecting that much of the sector has fairly high levels of contracted revenues over the part of the power curve that has declined.

PERFORMANCE & ACTIVITY

The infrastructure asset class has had a tough start to the year, reversing the positive returns generated in the last quarter of 2023. Unfortunately, the market continued to treat infrastructure equities as bond proxies, meaning that their share prices declined sharply as rate expectations worsened in the first half of the quarter. The fund stabilised in the second half of the quarter. It has generally continued to be an unusually volatile period for infrastructure, although we believe that we have been able to mitigate this to some extent through our active focus on diversification.

One major source of volatility has been the battery energy storage (BESS) sector. Energy consultancy Modo came out with data at the beginning of January indicating that Q4, which was supposed to be seasonally strong, was very weak. Partially this is related to BESS being under-utilised in National Grid's Balancing Mechanism amid continued use of gas-based energy storage, causing oversupply of these services to National Grid. Alongside this, the average intraday price spread has declined, meaning that where the balancing mechanism revenues were disappointing, BESS operators were not able to offset this with higher power price arbitrage trading revenues as per the prevailing business models. Two of the three listed infrastructure funds in the UK that focus on battery energy storage systems found themselves having to cut their dividend in this environment – these were Harmony Energy Income Fund (held) and Gresham House Energy Storage Fund (not held). What these two companies have in common is that their operational assets are entirely based in the UK. Over recent months, as it became increasingly clear to us that the UK BESS market was worsening, we balanced the portfolio in favour of Gore Street Energy Storage rather than Harmony Energy Income Fund. Both these companies were among the worst-performing holdings over the quarter, but positioning in favour of Gore Street Energy Storage mitigated the larger negative effect that would have resulted had the positioning had been reversed. While the Gore Street vehicle also suffered from negative sentiment towards the sector, it was able to maintain its dividend, has a strong balance sheet, and continues to pursue a longstanding strategy of international diversification. Our exposure to BESS is now primarily through Gore Street.

EdenTree Green Infrastructure Fund
Q1 2024 Commentary

It is our view that the long term prospects for energy storage as a necessary component of the energy transition remain positive.

Among the best-performing holdings this quarter were Foresight Sustainable Forestry, Cadeler, and Triple Point Energy Transition. Particularly noteworthy was Cadeler, which, having recently completed its merger with Eneti, went on to raise $166m via private placement to fund another newbuild vessel, announced a new contract for transport and installation of wind turbines at the Baltica 2 project off the coast of Poland, and published strong annual results and a record-breaking backlog of orders.

News relating to positive environmental outcomes from our holdings included the following:

- Greencoat Renewables published its 2023 full year results, in which it stated that its portfolio produced sufficient renewable energy to power 750,000 homes, saving c.1.3m tonnes of CO2 emissions, while committing €1.33m to local communities and social projects.
- TRIG published its 2023 full year results, stating that it has 38 active environmental management projects within its portfolio, and that its clean energy generation was sufficient to power c.1.9m homes, avoiding 2.1m tonnes of CO2 emissions.
- Foresight Solar Fund also published its annual report, stating it generated enough clean energy in 2023 to power more than 400,000 homes, avoiding more than 378,000 tonnes of CO2 emissions.

OUTLOOK

Infrastructure investment companies continue to trade at discounts to net asset values that remain very wide relative to history, despite infrastructure business models continuing to prove themselves effective; the impact of higher discount rates have largely been mitigated by inflation-linked revenues, and valuations have been verified by material asset sales taking place above carrying values, backed up by ambitious share buyback programmes. Despite what it may seem from the valuation discounts in public markets, investment in the energy transition is continuing apace. BNEF published its annual flagship report on energy transition investment trends this quarter, and estimated that almost $1.8 trillion US dollars was spent on energy transition investment in 2023 alone, up 17% year-on-year. Despite this, we are still not on track to meet net zero targets enshrined in law by governments around the world. We believe that there is a clear divergence between negative near-term sentiment and positive long-term fundamentals, and that this should give rise to some attractive investment opportunities for patient investors.

PERFORMANCE DISCRETE	12 Months to 31/03/2020	12 Months to 31/03/2021	12 Months to 31/03/2022	12 Months to 31/03/2023	12 Months to 31/03/2024
Fund Performance (B Class)					-14.0%
IA Infrastructure**					-3.0%
Sector Quartile					4

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

Past performance is not necessarily a guide to future returns.

*Inception: 28 September 2022
**As the Fund will invest in companies involved in the ownership, operation or maintenance of infrastructure assets, investors may compare the Fund's performance to the Investment Association Infrastructure Sector. Funds in this sector must have at least 80% of their assets (directly or indirectly) in companies involved in the ownership, operation or maintenance of infrastructure assets (including but not limited to: utilities, energy, transport, health, education, security and communications). However, the Manager is not bound or influenced by the Sector category when making investment decisions.

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.

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.

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.

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

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.