

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	8.1%	9.7%	-3.0%	43.0%	31.5%	85.5%
FTSE World TR GBP	4.8%	7.3%	-0.7%	59.7%	66.8%	190.6%
IA Global	4.1%	6.4%	-2.8%	47.8%	50.6%	137.8%
Sector Quartile	1	2	3	3	4	4

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

MARKET REVIEW

Global equities delivered a total return of 4.8% (in sterling terms) over the first quarter. Inflation data and resulting central bank policy continued to dominate equity markets. Markets began the year buoyed by the prospect of peak inflation and started to price in a possible easing in central bank policy later in the year. However, data early in the quarter pointed to stickier inflation, increasing the likelihood of rates staying higher for longer. A further concern was the collapse of Silicon Valley Bank (SVB), with contagion quickly spreading through the banking sector, producing a flight of deposits out of US regional banks to the larger banks. This accelerated deposit flight is one of the first major cracks to appear in the financial system and economy following the rapid central bank interest rate hikes witnessed over the last year. The SVB impact is expected to create tighter bank lending standards, particularly in commercial real estate loans, which led the market yet again to shift expectations for Fed interest rate policy to price in earlier cuts.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Global Fund rose 8.1% in sterling terms over the quarter, outperforming the FTSE World benchmark return of 4.8%, and the IA Global peer group return of 4.1%, placing the fund in the first quartile. Stock picking was the primary driver of this outperformance over the quarter, as many of our sustainable holdings reversed their 2022 losses. This was particularly evident with our US holdings gaining 14.7% against the US market gain of 4.8%. Key gainers in this area were largely within our Disruptive Innovation theme with big gains in Spotify (65%), Salesforce (46%), Palo Alto (39%). Following the collapse of SVB, the fund benefited from a flight to large caps within our technology holdings with Alphabet and Microsoft performing strongly, although some of these gains were offset from not holding other large-cap leaders such as Apple (+24%), Telsa (+64%), Nvidia (+85%) and Meta (+71%). Importantly, the fund benefited from the decision not to hold US banks, particularly the West Coast Regional banks, due to their correlation to the Tech sector, which dominates the regional economy. Strong stock picking was also evident in Asia, with our holding in Japanese emissions tester Horiba gaining 33% following strong results, while Sporton International, a Taiwanese electromagnetic testing leader, gained 26%.

Stock selection within the healthcare and industrial sectors was another key source of sector outperformance, again with our US holdings materially outperforming the benchmark. Within healthcare our underweight to large cap US pharma was a positive, with US healthcare reform weighing on sentiment, while positive news flow on drug development boosted our holding in Sanofi. Industrial outperformers were led by Mueller Water (water infrastructure, +26%), Sensata (industrial sensors, +21%) and Verra Mobility (safety and traffic management, +19%).

In terms of activity, we increased our holding in Hong Kong's Dah Sing Bank, a retail bank providing utility banking services to HK and mainland Chinese customers and companies. The bank trades below 0.3x Price/Book and offers a 6-7% yield,

coupled with strong capital metrics. We also added to our holdings in US medtech company Medtronic and semiconductor company Marvell both of which had fallen back to attractive valuations. The fund sold the remaining position within Dutch ingredients company DSM ahead of its completed acquisition of peer Firmenich, a move we felt diluted its credentials as a sustainable solutions company.

OUTLOOK

While global risk appetite improved in Q1, we remain acutely aware of the lagging impact of US rate hikes, with the full impact of rates above 5%, a level not seen since 2007, yet to be fully digested by the economy. Consensus expectations for up to three rate cuts by the first meeting in January 2024 feels overly optimistic, particularly with core inflation still at 5%, well over the target rate of 2%. With residual supply constraints still in the system, getting inflation back to trend will need to see demand falling sharply, and therefore seemingly an inevitable earnings recession is yet to be realised. Put another way, the “goldilocks” scenario of inflation successfully reverting to 2% trend without inducing a recession is being assigned an increasingly lower probability. While this quarter’s banking crisis was relatively contained, concerns remain highly elevated within commercial property markets, and more broadly we remain vigilant for signs of unexpected challenges manifesting in the economy resulting from this aggressive tightening cycle. With this backdrop, it is as important as ever to maintain our valuation discipline and focus on businesses backed by enduring sustainable thematic drivers; we believe the fund continues to be well positioned for the prevailing conditions.

For 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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