EdenTree R&S Global Equity Fund

Q1 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	4.0%	10.2%	12.0%	11.6%	48.6%	105.2%
MSCI ACWI Net TR GBP*	9.2%	16.7%	22.1%	39.3%	83.2%	229.6%
IA Global	7.9%	15.3%	16.8%	22.8%	61.7%	159.5%
Sector Quartile	4	4	3	4	3	4

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

MARKET REVIEW

Over the first quarter of 2024, global equities continued to rally with the MSCI ACWI Index delivering a total return of 9.2% in sterling terms. This strong performance was somewhat misaligned with the increasing expectation that central banks are likely to delay interest rate cuts following better-than-expected economic data during the quarter, especially in the US. While strong economic data reduced the likelihood of rate cuts, it has increased the probability of the soft landing sought by central banks. In a similar fashion to 2023, where the market's performance was driven by the returns of the "Magnificent Seven", a narrow list of just four mega-cap US stocks, the "Fab Four" of Nvidia (84.1%), Meta (38.5%), Amazon (19.8%) and Microsoft (13.7%), buttressed returns during the quarter.

In a momentum driven market, technology continuing to lead sector performance (+13.1%) driven by excitement around AI, while defensive sectors, such as Real Estate (0.0%) and Utilities (+2.4%), lagged the wider index. The technology heavy US indices outperformed other regions, whilst the staples heavy UK market and Asia ex Japan equities (which is exposed to a slowing Chinese economy) underperformed.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Global Equity Fund rose 4.0%, underperforming the MSCI ACWI index return of 9.2%, although the Fund recovered strongly in March rising 3.7% vs. 3.3% for the benchmark. Not holding three of the Fab Four resulted in a 1.8% drag on performance during the quarter – the Fund only holds Microsoft among that group. These highly momentum-driven conditions (the greatest in 30 years), with increasingly clustered market leadership, have been a challenge for many actively managed funds. Defensive holdings tended to lag (for example, those from the traditional utilities sector), while stocks related to the renewable energy value chain also struggled, given they are particularly sensitive to short-term interest rate expectations. This included holdings in lowly-valued green infrastructure companies which continue to trade at a significant discount to the net asset values of their underlying assets. The valuations of these stocks should revert through time as the interest rate outlook becomes clearer, providing attractive upside potential.

There were a number of notable highlights during the quarter. Within our Cleaner, Safer, Circular theme, water infrastructure companies Advanced Drainage (23.8%), Xylem (14.3%) and Mueller Water (13.2%) outperformed following a strong earnings season and robust order books. Utilities lagged with Enel (-8.0%) and SSE (-10.3%) both impacted by a weaker EU power pricing outlook, yet strong conviction remains on the long-term investments case for these essential transitional utilities. Our Disruptive Innovation theme delivered several of the top performing stocks over the quarter, including Spotify, which is up 42% year to date, following strong results and cost efficiency announcements. The Fund's technology holdings outperformed the benchmark, returning 13.3% vs. 13.1% for the benchmark, despite holding only Microsoft out of the Fab Four.

This was due to stock selection with strong performance of key enablers within the transformative artificial intelligence space such as Lattice (24.1%), Horiba (37.2%) and TSMC (26.0%). Looking to Healthy Future, scientific instrument company Bruker (28.9%) was one of the top individual positive contributors in Q1 after a sizeable upgrade to guidance. The company plays a vital role in innovation across multiple industries. Stock selection within pharmaceuticals was negative given the strong performance of the select few with obesity drugs.

In terms of activity, the Fund exited HASI. While we fully believe in the need for financing decarbonising projects, the renewable project incentive outlook is opaque carrying significant election risk, leaving us cautious on this specific name for the time being. We reduced Horiba; the measurement instrument company had a strong Q1 given its capital equipment AI exposure, but was also up over 100% on a one year basis. We reinvested the proceeds into Lattice Semiconductor, which we view as a beneficiary of AI in the future; the company specialises in fully programmable gate arrays, enabling multipurpose chips where most can only do one process. The Fund entered a new position in Novo Nordisk ahead of the capital markets day. While the stock has rallied strongly over the past year, we see the value potential beyond its weight loss focus, combined with a notable first mover advantage we feel it will sustain via its pipeline and unrivalled manufacturing capacity/expertise.

OUTLOOK

Following the bumper first quarter return, we would expect a moderation in market returns particularly for the US, which based on long-term metrics (like Shiller P/E) trades close to the top one percent of its historical range. Historically, returns from this level of valuation have been significantly lower than average. Short-term multiples also suggest a similar outcome, for example, the percentage of S&P500 companies trading on an EV/Sales above 10x hit 23% of market cap this quarter. A breach of the 20% level has happened twice in the past 40-50 years, in the TMT bubble, and the post-COVID bubble with the median subsequent return being -14% – although, given AI has driven a significant element of this market cap quota, “it could be different this time”.

The end of the next quarter was expected to see the first rate cut in the US, although our expectations have been much more tempered as we expect inflation to remain an issue. Falls in energy prices contributed to slowing inflation, but elevated tensions in the Middle East have caused rising oil prices, translating into higher energy prices that ultimately feed into inflation metrics – little of this was priced into equities in Q1. Political noise could further fan geopolitical tensions and inflation, keeping volatility elevated amid a busy year ahead for elections. Taking the recent boom in artificial intelligence exposed stocks, we have taken a more considered approach around the thematic with longer duration upside potential at reasonable valuations. We remain confident that our selective approach to find Sustainability at a Reasonable Price (SARP), leveraging our internal expertise, can deliver attractive long term exposure to these key themes without overpaying.

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 (B Class)	-7.3%	43.6%	2.6%	-2.9%	12.0%
MSCI ACWI Net TR GBP*	-6.0%	39.9%	14.9%	-0.7%	22.1%
IA Global	-6.3%	40.6%	8.1%	-2.8%	16.8%
Sector Quartile	3	2	4	3	3

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

Past performance is not necessarily a guide to future returns.

*The MSCI ACWI GBP Net Total Return Index was adopted as the Fund’s comparative benchmark on 1 January 2024, replacing the FTSE World TR index. As the Fund invests in a diverse range of global companies and sectors, we compare the Fund’s performance to the MSCI ACWI GBP Net Total Return Index, however the portfolio manager is not bound or influenced by the index when making investment decisions.

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