R&S Global Equity Fund

Q2 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	4.2%	12.7%	13.9%	25.2%	32.1%	98.9%
FTSE World TR GBP	3.9%	8.9%	13.5%	38.3%	61.7%	200.9%
IA Global	2.4%	6.6%	10.8%	26.8%	61.7%	143.8%
Sector Quartile	2	1	2	3	3	4

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

MARKET REVIEW

The FTSE World Index delivered a total return of 3.9% (in sterling terms) over the second quarter of 2023 after another tumultuous quarter framed by inflation and interest rate projections. Despite a minor US regional banking crisis, the fallout from rapid tightening cycle has so far seemed relatively contained. The widespread sticky inflation prints ended unrealistic expectations of year-end rate cuts, supporting the higher for longer interest rate outlook. Equally supportive of higher rates was the overall robust economic data and better than anticipated Q2 earnings season, keeping the spectre of recession at bay, at least for now. Despite the noisy macroeconomic backdrop, the resilience of the portfolio's secular stock theses was very much apparent. This led to a pleasing rebound in several 2022 laggards, which included companies that are driving the circular economy, and leading innovation in advanced computation as well as frontier medicine.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Global Equity Fund rose 4.2% in sterling terms over the quarter, outperforming the FTSE World benchmark's return of 3.9%, and the IA Global peer group return of 2.4%, placing the fund second quartile. Global equity performance was driven by gains in the US, with the NASDAQ and S&P 500 climbing 9.8% and 5.6% respectively. The largest geographic contribution came from the Fund's holdings in Asia ex Japan, which outperformed their regional benchmark by c.8% over the quarter. Additionally, US stock picking remained strong, although our holdings in Japan and UK were modest detractors.

Breaking down by sectors, technology was the best performer in the portfolio rising 11.9%, driven by a boost in sentiment around Artificial Intelligence, which supported the broader chip and cyber-security ecosystem. Whilst we acknowledge the long-term transformative potential of AI, we remain highly selective with our exposure, and continue to assess and engage around the associated ethical risks yet to be tackled by regulation. More broadly, stock selection within Healthcare (Healthy Future pillar) and Industrial sectors (Cleaner, Safer, Circular pillar) were the biggest drivers of outperformance. Top individual stock contributors included optical chip maker Marvell Technology (+33%), precision tester Chroma ATE (+34%), waste treatment technology specialist Cambi (+61%) and colon cancer screening company Exact Sciences (+35%). The primary negative detractors were in the speciality paper and packaging sectors, with our holdings in Billerud (-22%) and DS Smith (-13.5%) retracing on inventory build and cyclical concerns.

In terms of activity, following the takeout of Biffa (and previously Bingo Industries), we have sought to re-establish exposure to the circular economy, through the initiation of a new position in Australian waste management leader Cleanaway. Cleanaway is seeking to respond to Australia's ambitious National Waste Plan and address waste streams such as food organics and plastics which are materially below national recycling targets.

Additional activity included the sale of Hannover-based insurer, Talanx, in addition to risk reductions across several strongly performing stocks, particularly within the tech sector.

OUTLOOK

Following strong global equity performance so far in 2023, we remain acutely aware that the lagging impact of interest rates is yet to be fully absorbed. With Central Bank mandates focussed on lagging indicators of inflation and employment, there remains a real risk that rates continue to rise well into restrictive territory and remain there for longer than expected. In the US, markets remain relatively willing to discount a deceleration in the inflationary pressures, however the five to six rate cuts expected by the end of 2024 imply little chance of a re-acceleration despite this monetary easing. The structural tightness of the labour force may be the decisive factor. Despite the macro attention, we believe stock selection will continue to be a differentiating factor this year. The need to maintain valuation discipline while selecting high-quality sustainable companies remains as critical as ever to driving long-term outperformance.