R&S Global Equity Fund

Q3 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-2.5%	1.6%	11.6%	19.1%	26.6%	92.4%
FTSE World TR GBP	0.7%	4.6%	12.2%	34.9%	53.3%	199.0%
IA Global	-1.1%	1.3%	7.7%	20.5%	36.2%	135.4%
Sector Quartile	3	3	2	3	3	4

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

MARKET REVIEW

Following a strong first half of the year, mounting risks started to catch up with returns in Q3 with the FTSE World Index delivering a total return of -3.4% in local currencies, although the index ended higher by 0.7% in sterling terms due to currency movements. Whilst inflation remains high, most economies saw an easing in core inflation, which supported the case for a pause in rate hikes. However, as economic data continued to show resiliency in the US jobs market, the higher rates for longer narrative ensued. Government bond yields rose over the quarter, pressuring asset prices. Notably it was a strong quarter for commodities, particularly oil as prices rose on production cuts, leading the energy sector higher and creating a headwind for the Fund given it has no exposure to oil and gas companies.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Global Equity Fund fell by 2.5% over the quarter, driven by a performance bifurcation in the energy sector. Overall, the performance of the global equity market was supported by positive performances from Japan and the UK with value-orientated and oil-exposed stocks outperforming growthier stocks. Regionally Europe ex UK led the declines as the impact of inflation and rising rates challenged the growth outlook, although the fund outperformed 3.2% relative in this region via stock selection.

Sector allocation had the biggest impact on performance over the quarter with the best performing sector, energy, rising 14.4%, with the Fund's lack of exposure to oil and gas accounting for more than half of the Fund's quarterly underperformance. The underweight allocation to the strong performing energy sector was exacerbated by the dislocated performance from renewable energy stocks due to concerns around higher discount rates and some quarterly inventory indigestion within the solar supply chain. Overall, the Fund's exposure to the renewable energy supply chain remains modest, with the primary exposure being SolarEdge, a leading solar inverter producer, providing a solution to European energy security challenges. SolarEdge, which is a modest holding in the Fund, declined c.49% during the quarter following Q2 results that contained a weaker guide, as European distributors carry higher inventory in batteries and optimisers. The company has subsequently highlighted that regional policy shifts are further exacerbating inventory channel issues, potentially prolonging the recovery into 2024. It was also a challenging period for renewable infrastructure given the higher for longer interest rate narrative with Gore Street Energy Storage and HASI falling 14% and 10% respectively despite both management teams relaying high conviction regarding the pipeline of opportunities.

Positive contributions to fund performance were led by the basic materials sector, with renewable packaging materials company Billerud gaining 27.6% as analysts recognised the improving operational outlook as well as the replacement asset value for their paper mills being double the market's current ascribed value. In Asia, our holding in Chroma ATE continued its strong 2023, gaining 13% over the quarter, taking year to date gains to 46% on the back of strong demand for testing within battery, GPU, and 3D sensing.

In terms of activity over the quarter, the broad trend was one of profit-taking and de-risking with outright sales in the industrial and technology sectors. Within industrials we sold Federal Signal, a leading manufacturer of environmental cleaning and infrastructure vehicles; having risen almost 120% over the last three years, it was valued at metrics two standard deviations above average. Staying within the industrials sector, we exited Sekisui Jushi, a small-cap Japanese transport infrastructure provider following a strong year-to-date performance. Within tech, we exited Lam Research on valuation grounds following a strong re-rating to a similarly stretched level. Additionally, we took some profits from optical semiconductor leader Marvell Technologies. With the proceeds we initiated a new position in Analog Devices whose semiconductors play a fundamental role in converting, conditioning, and processing real-world mediums such as light, sound, temperature, motion, and pressure into electrical signals to be used in a wide array of electronic equipment. The stock trades at a significant discount to large-cap peers; we feel this is unjustified given the company's technological and scale advantages. Finally, within the insurance sector we took the opportunity to buy Danish P&C leader Tryg following a period of material underperformance.

OUTLOOK

Following a definitive mood shift in the second half of the year, we remain defensively positioned and aware that the lagging impact of interest rates may yet to be fully realised. Macro data continues to be stronger than expected in the US, implying that rates may need to be held at elevated and restrictive levels for longer than the already-pushed-out expectations. With the Fed's last 75 basis point hike taking place in November 2022, it is looking increasing likely that the economic impact is taking longer than typical transmission period of 10-18 months. With rates staying higher for longer, the competition for capital remains acute. Within the Treasury market, quantitative tightening (QT), against a backdrop of significant issuance, could challenge the supply and demand balance. As equity investors, we remain vigilant regarding the impacts of a higher risk-free rate on equity valuations, particularly those companies that are highly sensitive to changes in the discount rate. Following material underperformance in some areas of the market, such as renewable energy and cyclically exposed industrial solutions providers, we continue to conduct our fundamental analysis, with a strong valuation discipline and patient ethos, to identify attractive entry points for long-term opportunities. Undoubtedly, current macro conditions are challenging but also provide the potential for stock selectors to deliver long-term outperformance.