

RESPONSIBLE AND SUSTAINABLE MULTI-ASSET BALANCED

COMMENTARY FOR QUARTER TO END SEPTEMBER 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-5.1%	-12.6%	-17.7%	-	-	-
IA Mixed Investment 40-85% Shares	-2.1%	-9.3%	-10.3%	-	-	-
Sector Quartile	4	4	4	-	-	-

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

REVIEW

Global stock and bond markets were volatile during the third quarter of 2022. The US Federal Reserve continued its programme of policy tightening with an increase in the fed funds rate by 1.5%. And Chair Jerome Powell quashed market expectation of a dovish pivot by stressing the Fed's intention to "keep at it until the job is done". This stance underpinned a further rise in the US dollar, a safe-haven currency during times of distress, and fanned expectations of a global recession.

Europe's economy, meanwhile, continued to struggle under the weight of the war-induced energy crisis, with the Nord Stream gas pipelines shutdown and subsequently damaged, presumably through an act of sabotage. Regional inflation hit 10% in September and the ECB embarked on its first rate increases since 2011. In the UK, CPI hit 10.1% in August and the Bank of England, which appeared to be behind the curve, raised its base rate to 2.25%. The UK government's September "mini" budget was a source of ructions late in the period, pushing the pound and gilt markets lower and exposing cracks in the UK defined-benefit pension sector which had used derivatives in liquidity driven liability schemes.

In bond markets, the US 10-year Treasury yield rose to 3.8% from 3.0%, while the UK 10-year gilt yield increased significantly from 2.2% to 4.1%. Corporate bond spreads continued to widen, with high yield credit once again bearing the brunt. Falls in many major stock indices this quarter nudged many major markets into bear market territory (i.e., losses of over 20%) over the year to date. Growth slightly outperformed value, in part due to expectations of a Fed policy pause. Individual sector performances were mixed with consumer discretionary and consumer staples, as well as energy, outperforming, while utilities, telecoms and materials underperformed.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Balanced Fund declined over the quarter, generating a return of -5.1%, slightly underperforming its IA Mixed Investment 40-85% Shares benchmark, which also declined, generating a return of -2.1%.

The EdenTree Responsible and Sustainable Multi-Asset Cautious Fund declined over the quarter, generating a return of -5.3%, slightly underperforming its IA Mixed Investment 20-60% Shares benchmark, which also declined, generating a return of -3.0%

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund declined over the quarter, generating a return of -4.6%, underperforming its IA Mixed Investment 40-85% Shares benchmark, which also declined, generating a return of -2.1%.

For each of the Funds, the sharp rise in UK bond yields, which equates to falling bond prices, impeded returns. This was most notable for the Balanced and Cautious Funds, which have higher levels of fixed income exposure than the Growth Fund. Nevertheless, the UK bond portfolio's focus on quality, short-dated paper offered a measure of protection against some of the largest falls witnessed further out on the yield curve.

Meanwhile, within each Fund's equity portfolio, the geographical allocation had a bearing on returns with UK equities, and indeed 'value' shares, generally underperforming international peers and growth to the detriment of Fund performance. Additionally, the large upward move in UK bond yields at the end of the quarter was negative for UK listed infrastructure investments and REITs in the portfolio, such as Triple Point Energy Transition, GCP Infrastructure Investments, and Land Securities.



OUTLOOK

While we remain risk-averse in the current environment, the notable move upwards in bond yields this quarter has created the opportunity to purchase high quality quasi-government bonds with attractive yields, as well as AAA issues slightly down the risk spectrum which we have started to consider for the portfolio. We have also slightly extended the duration of the bond portfolio.

The political backdrop in the UK has effectively brought a number of pre-existing economic pressures to the fore, including those associated with asset allocation strategies for UK defined benefit pension schemes. The ensuing turbulence in bond markets has required Bank of England intervention and placed pressure on the government to step back from some of its unfunded fiscal plans. The government has also mooted plans to cap revenues of alternative energy providers. While this has created uncertainty for listed green infrastructure, we believe this is largely reflected in the price of these investments, which now appear more attractive on a longer-term view.

While cautious about the backdrop, especially as interest rates still have further to rise, we remain alive to the opportunities across both equities and bonds to invest in assets that have been unduly de-rated and where risk-reward profiles are starting to tilt in favour of longer-term investors. Notwithstanding the challenging backdrop, the Fund is well diversified and in a strong position to deliver as economic and financial conditions improve.

To obtain 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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