R&S Multi-Asset Balanced

Q4 2022 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	5.2%	-0.2%	-14.1%	-	-	-
IA Mixed Investment 40-85% Shares	3.0%	0.8%	-10.1%	-	-	-
Sector Quartile	1	3	4	-	-	-

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

MARKET REVIEW

Global stock and bond markets rebounded strongly in the final quarter of 2022. The prospect of peak inflation and a moderation in the Federal Reserve's tightening cycle were the main catalysts for the lift in the market's mood. Among key markets, the FTSE All-Share climbed 8.9%, the FTSE World Europe ex UK rose by 11.6%, while the S&P500 was down 1.1% in sterling terms, although the negative result was largely currency driven with the index returning 7.6% in US dollar terms.

The US Federal Reserve raised its benchmark interest rate by 0.75% and then 0.5% in the quarter, taking the policy rate to 4.25%-4.5%. Despite an easing in inflation and moderation in the pace of tightening, rhetoric from the Fed remained hawkish. The European Central Bank and Bank of England increased interest rates by similar magnitudes, to policy rates of 2.5% and 3.5% respectively. Inflation figures generally drifted lower in the US, but remained extremely elevated in the UK and Europe. While there were indications of recession in UK and European PMI figures, data in the US tended to confound gloomy expectations for the economy.

Bond markets were more settled than the previous quarter, especially in the UK where the political backdrop settled following the change of Prime Minister and Chancellor of the Exchequer in October. UK 10-year bond yields eased back to 3.7% after starting the quarter at 4.1%, and corporate bond spreads narrowed to 163 basis points from 184 at the end of September. The US 10-year Treasury bond yield ended the quarter at 3.81%, down modestly from 3.83% although not without some volatility.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Cautious Fund increased in value over the quarter, generating a return of 5.0%, outperforming its IA Mixed Investment 20-60% Shares benchmark, which generated a return of 3.1%

The EdenTree Responsible and Sustainable Multi-Asset Balanced Fund increased in value over the quarter, generating a return of 5.2%, outperforming its IA Mixed Investment 40-85% Shares benchmark, which generated a return of 3.0%.

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund increased in value over the quarter, generating a return of 5.4%, outperforming its IA Mixed Investment 40-85% Shares benchmark, which generated a return of 3.0%.

For each of the Funds, strong performance was driven by positive returns from the respective equities portfolios. Market activity generally favoured our value-based investment style, with exposure to UK equities making the most notable contribution to returns. Each Fund's overseas equities exposures, which favoured Europe over the US, also added value.

The fixed income exposure of each Fund added modest ground with mixed returns. Building society PIBS (permanent interest-bearing shares) were generally weaker due to concerns about the property sector, although this was offset by the

Fund's wider exposure to UK corporate bonds. These bonds generally benefited from a more settled political backdrop. Similarly, exposure to UK listed infrastructure also added value, with the sector benefiting from the improved backdrop, most notably holdings such as Sequoia Economic Infrastructure Income Fund and Triple Point Energy Transition. Lastly, growing expectations of a peak in the current interest rate tightening cycle generally supported gains in the Funds' UK and overseas REITS. In terms of transactions, we took some profits in Greencoat UK Wind and invested positive inflows into a cross-section of underlying funds and topped up exposure to REITS, which are trading at discounts to NAV.

OUTLOOK

Financial markets have had a positive start to 2023, in part driven by a softening of economic data in the US, where headline inflation has dropped back to 6.5%, while core inflation, a measure that excludes items over which Fed policy has little control, also edged down. While superficially this might seem like positive news, the market's response highlights what might be a persistent risk this year; namely, that the market underestimates the length of the tightening cycle. The job market remains tight and consumer spending is still relatively robust, despite cost-of-living pressures. Moreover, while the higher interest rate environment has certainly tightened conditions for borrowers (corporates and individuals), the full effects of tighter policy will take time to work through. Central banks will be keen not to relax policy too soon, even if rates plateau towards the middle of the year. While inflation is expected to come down due to re-basing effects, it is likely to be fairly sticky at 3-4%.

We therefore believe a value approach to equities should continue to perform well this year, and we continue to favour Europe and the UK over the US, although we have started to moderate the Funds' overweight exposure to UK equities. We are also reluctant to significantly increase fixed income exposure and are maintaining a relatively short duration and focus on quality, given the tightening cycle has further to run and increased default risk in the market. We also continue to favour green infrastructure, which offers a solid yield and has defensive characteristics.

Overall, the Funds remain well diversified and are positioned to benefit from the prevailing economic backdrop.