RESPONSIBLE AND SUSTAINABLE MULTI-ASSET CAUTIOUS

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-6.67%	-12.26%				
IA Mixed Investment 20-60% Shares	-6.42%	-9.57%				
Sector Quartile	4	4				

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

REVIEW

The second quarter of 2022 proved difficult for investment markets as the fallout from the Russian invasion of Ukraine – and subsequent sanctions on Russia – added to inflationary pressures. Central banks around the world found themselves forced to act, raising interest rates sharply over the course of the quarter. This, combined with widespread labour shortages, drew attention away from the post-Covid global economic recovery and increased focus on the potential for stagflation, in turn, leading to correlated falls in investment markets. Developed market equities have delivered some of the steepest declines since the start of the Covid pandemic, and government bonds have fallen in lockstep. This created a challenging investment backdrop, while also giving rise to selective opportunities for stock-pickers.

June saw the US Federal Reserve raise its benchmark interest rates by 0.75%, having already raised it by 0.5% in its most aggressive rate hike since 1994, meaning the central bank is now targeting a range of 1.5% to 1.75%. The US 10-year Treasury yield rose to 3.0% from 2.4%. The Bank of England also raised rates over the quarter, taking the Bank Rate to 1.25%. The UK 10-year yield increased to 2.2% from 1.6%. Corporate bonds underperformed government bonds as spreads widened, with high yield credit bearing the brunt. Within equity markets, value continued to outperform growth, and traditionally defensive sectors, such as consumer staples, healthcare, and telecoms, outperformed consumer discretionary and technology names.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Cautious Fund declined over the quarter, generating a return of -6.7%, slightly underperforming its IA Mixed Investment 20-60% Shares benchmark, which also declined, generating a return of -6.4%

The EdenTree Responsible and Sustainable Multi-Asset Balanced Fund declined over the quarter, generating a return of -7.8%, slightly underperforming its IA Mixed Investment 40-85% Shares benchmark, which also declined, generating a return of -7.4%.

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund declined over the quarter, generating a return of -8.5%, underperforming its IA Mixed Investment 40-85% Shares benchmark, which also declined, generating a return of -7.4%.

In this month's falling bond and equity markets, the Cautious fund was the one that declined the least, benefitting from lower duration in the bond portfolio and a greater proportion of value investments in the equity portfolio relative to the other funds in the range. The Growth fund, at the other end of the spectrum, declined the most.

Equity markets were led by defensives like health care and consumer staples this quarter, alongside energy, which continued its volatile ascent. The latter was clearly a headwind for responsible and sustainable funds, although some of our holdings were able to benefit, such as the Ecofin US Renewables Infrastructure Trust and Triple Point Energy Efficiency Infrastructure Company.

The best performance in the fund this quarter came from our short-date bond exposure, which was able to minimise losses in declining bond markets through its shorter relative duration position. Within our bond holdings, exposure was added to quasi-government debt along with existing holdings in floating rate notes, in anticipation of further rate rises; this proved beneficial as lower quality debt underperformed in the face of rising sovereign debt yields and wider credit spreads.

We believe it makes sense to remain risk-averse in the current environment and, towards the end of the period, modestly reduced exposure to growth equities and the duration of the fixed income portfolio. We maintained our preference for infrastructure over REITS within our alternatives allocation.

OUTLOOK

We believe it may still be too early to fully rotate into fixed interest. Real rates are still very low, and there is still room for central banks to raise rates further. Bond yields are also still well below inflation. We continue to believe that there are better yields on offer in equities and alternatives than fixed interest at the moment. Within equity markets, we are mindful that market declines may eventually generate opportunities to invest in growth names, but believe that these are still relatively expensive compared to value names, and maintain more cautious positioning in the portfolio.

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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