

### PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-1.1%	-1.3%	8.0%	-	-	-
IA Mixed Investment 40-85% Shares	-0.2%	0.0%	5.3%	-	-	-
Sector Quartile	4	4	1	-	-	-

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

### MARKET REVIEW

The third quarter of the year was a challenging one for both equities and bonds, as several key themes determined the market direction. Firstly, attention remained firmly fixed on the activities of central banks. The Federal Reserve (Fed) raised rates in July to reach 5.25%-5.5% – the highest level in 22 years – but despite pausing once more in September the Fed's latest 'dot plot' projection of future rates suggested there would be fewer cuts than expected next year leading markets to price in a higher-for-longer scenario. This stance was echoed by the European Central Bank (ECB), which raised its deposit rate for a tenth consecutive time in September to reach an all-time high of 4% but signalled rates were near their peak, and the Bank of England, which also paused in September following 14 consecutive rate rises. Secondly, economic data increasingly pointed to slowing economic growth worldwide. While resilient consumer spending continues to prop up the US economy, China's economic slowdown – fuelled by its troubled real estate sector – is dampening growth expectations across many regions that trade heavily with the world's second-largest economy. 2023 growth forecasts for the Eurozone were revised down by the European Commission, while recession fears lingered in the UK. Finally, while inflation has now passed its peak in most regions, it remains well above target levels and a sharp rise in oil prices during the third quarter has reawakened concerns that inflation could persist going forward.

In terms of market performance, the FTSE All- World Index added 0.7% during the quarter in sterling terms, but from a local currency perspective the index declined by 3.4%. Similarly in the US, the S&P500 and the NASDAQ fell by 3.3% and 3.9% in local currency terms, but these losses were reversed by US dollar strength versus sterling. In Europe, FTSE World Europe Index ex UK returned -1.7% in sterling terms and the FTSE All-Share climbed 1.8%. Once again, Japan's Topix was the strongest performer, gaining 3.0% in sterling terms (+2.4% in local currency terms). Emerging market indices were weaker over the quarter in local currency terms, the MSCI Emerging Market Index declined by 2.9% (+1.2% in sterling terms). Meanwhile, Value and Quality investment styles outperformed Growth on a global basis.

Mirroring the challenging market conditions of 2022, bond investors were also in retreat during the third quarter. Yields moved higher in most regions and there was a clear curve steepening as bond markets priced in the higher rates for longer scenario. In the US, 10-year Treasury yields reached levels last seen in 2007, German 10-year bund yields were also at a decade-plus high and even Japan saw 10-year yields reach their highest levels since 2013.

### PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund lost ground during the quarter, returning -1.1% in absolute terms, and underperforming its IA Mixed Investment 40-85% Shares benchmark, which returned -0.2%.

The Fund's exposure to UK equities, through holdings in the EdenTree's R&S UK Equity and UK Equity Opportunities funds, weighed on performance, with the allocations small cap exposure proving to be a headwind. On the other hand, the Fund's holding in the R&S European Equity Fund outperformed – boosted by German logistics and transportation company Hamburger Hafen und Logistik which was subject to an acquisition approach. The Fund's UK bond holdings through the EdenTree R&S Sterling Bond and Short Dated Bond funds outperformed their overseas peers, but the general move higher for bond yields negatively impacted the Fund's fixed income exposure overall. Infrastructure, held via the EdenTree Green Infrastructure Fund as well as through direct investments in listed infrastructure companies, also proved to be a headwind, as the sector continued to feel the impact of higher borrowing costs and the unwinding of the sector's prior yield premium. However, we continue to feel that green infrastructure is being unfairly penalised by the market as many of these projects have positive links to inflation and should also benefit from the long-term energy transition theme.

## OUTLOOK

The global macro picture is becoming increasingly opaque, with significant divergences between and within regions. For example, the economic situation in Germany is clearly stagnating, reflecting the impact of higher energy costs and slowing manufacturing, while the broader European region is still exhibiting pockets of economic strength – consumer spending remains healthy and the employment market is robust. This lack of clarity puts central banks in a particularly challenging position, if the overall economy slows, then monetary policy is likely to be eased more quickly, but if the economy stays relatively healthy or inflation starts to rise again then central banks may be forced to take even more aggressive action.

Against this backdrop, we have shifted the Fund's slightly overweight equities versus bonds position to a more neutral stance. Bond yields moved considerably higher during the third quarter and we now see that the prospects for the asset class are more attractive going forward while the outlook for equities remains cloudy. Within fixed income, we have also taken a slightly longer duration position as longer end bond yields have now risen to historically high levels and should fall back if the Bank of England brings inflation back down to the target rate. However, given the uncertain economic climate and an environment of higher refinancing costs, we remain strongly underweight credit. In terms of our equity exposure, we have taken a more cautious position by reducing the overweight to cyclicals, favouring value over growth (amid valuation concerns) and focusing on large caps over small caps. We have also slightly reduced the Fund's overweight UK equity exposure. Lastly, given improved valuations and the positive link to inflation, we have moved to an overweight position in both infrastructure and real estate.

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