R&S Managed Income Fund

Q3 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	1.0%	-0.5%	11.0%	23.4%	11.2%	55.8%
FTSE All Share TR GBP	1.9%	1.4%	13.8%	39.8%	19.7%	71.8%
IA Mixed Investment 40-85% Shares	-0.2%	0.0%	5.3%	10.3%	15.0%	62.7%
Sector Quartile	1	3	1	1	3	3

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

MARKET REVIEW

As has been the case for much of the past year or more, the dominant theme for the third quarter of 2023 continued to be the interaction between inflation expectations and interest rates. The pattern emerging across most developed markets was one of headline inflation falling, but with core inflation remaining more stubborn as rises in wages and services persisted. Most of the main central banks indicated that rates were unlikely to rise much further, if at all, but with a high degree of vigilance should any sign of inflation re-emerge. There was some divergence between bond and equity markets, in that yield curves started to flatten as bond markets increasingly assumed that higher interest rates were beginning to take their toll on the real economy (typically it costs more to borrow long term vs short term, given the higher risk, but this has been reversed in recent quarters, which is widely seen as a harbinger of recession). Equity markets were not sending quite the same signal though, as valuations remained comparatively high in the US (less so in Europe) and there was not much sign of the cuts to profit forecasts that usually occur ahead of a recession.

PERFORMANCE & ACTIVITY

The EdenTree Responsible & Sustainable Managed Income Fund rose slightly over the quarter which, though slightly behind its benchmark the FTSE All Share, was well ahead of other funds in its sector. This was driven by an encouragingly wide range of holdings. Stocks such as Talanx (German insurance), CME (US stock exchange operator) and DS Smith (paper packaging) all rose by double-digits.

This stood in contrast to many of our holdings in the listed infrastructure sector, such as HICL Infrastructure and JLEN Environmental Assets, which continued to suffer from wide discounts to their publicly disclosed net asset value, for reasons that we find puzzling. Some of these companies have recently sold assets at a premium to NAV which demonstrate the robustness of their internal valuation process and also highlight the discrepancy between valuations in publicly listed companies and privately-owned ones, which in the latter case remain much higher. We remain holders of these businesses (about 12% of the portfolio), given the solid dividend yield and the valuation discrepancy.

The current managers took over the fund in March this year and, after a period of remodelling the portfolio, turnover is now much lower and closer to what we would expect in the long term. The current portfolio breakdown is about 74% equity (of which 12% is in the aforementioned listed infrastructure vehicles) and 22% is in fixed income securities, with the balance in cash. The equity portion is mostly large cap stocks, balanced between the UK and other European markets (where we find valuations to be much more attractive) with a small allocation to the US. The fixed income portfolio comprises mainly corporate bonds, on average investment grade, with a smaller allocation to gilts, where yields are now attractive in our view.

One new position added over the quarter was in Bunzl, a UK-listed distributor of consumables to a wide range of sectors, such as healthcare, food service and cleaning. With a 30-year track record of dividend growth, a reasonable valuation and a resilient business model, this was a stock that ticked all the right boxes for our dividend growth basket.

OUTLOOK

We find ourselves at a difficult juncture for risk assets. Historically, the point at which a period of yield curve inversion ends has been the point at which recession starts. That is where we are now. Yet, at the same time, the US economy does not look like recession is imminent, with high levels of employment and surprisingly resilient company earnings. But there are warning signals out there. Germany is likely already in recession, in part due to a slowdown in exports to China, where growth is sluggish as the construction boom has ground to a halt amid a mountain of debt defaults. Most of Europe, the UK included, faces little or no economic progress in the near term. War and climate change remain ever-present threats, often in ways that are very hard to predict.

With these factors in mind, we remain defensively positioned, with little exposure to areas such as consumer spending and more economically cyclical sectors such as industrial goods. Instead, we have greater focus on areas such as the energy transition and digitalisation where there is a long-term commitment to capital spending that is more protected from the broader economic cycle.

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**