

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	9.9%	1.9%	-20.1%	-13.2%	-3.5%	61.7%
FTSE All Share TR GBP	8.9%	5.1%	0.3%	7.1%	15.5%	88.2%
IA UK All Companies	9.6%	4.2%	-9.2%	-0.2%	8.5%	82.8%
Sector Quartile	2	4	4	4	4	4

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

MARKET REVIEW

The UK and US stock market both performed well in the quarter largely due to expectations that central banks around the world have begun to get inflation under control. Consequently, there is the expectation that smaller interest rate increases will be required going forwards. The conflict in Ukraine has continued and Russian gas flows to Europe remain halted, which has contributed to high commodity prices, and fed into cost-of-living pressures. The Federal Reserve increased the fed funds rate by 0.75% in November and then 0.5% in December to 4.25%-4.50% and all signs point to further, albeit smaller rate increases, in order to tackle inflation. Liz Truss resigned as Prime Minister following the mini-Budget which saw a sharp increase in government borrowing costs and led to the Bank of England to intervene in the bond market. Truss was replaced as Prime Minister by Rishi Sunak and government borrowing costs decreased partly as a result of the new chancellor's Autumn Statement. The Bank of England voted to raise interest rates by 0.5% to 3.5% although there was a three-way split, with one member voting for a larger 0.75% increase, and two members voting to hold rates. All the UK indices were in positive territory in the quarter. Elsewhere, the Brent Crude oil price decreased to below \$85 in the quarter largely due to demand fears. The European Central Bank raised interest rates by 0.75% in October and then 0.5% in December to 2.0% in an attempt to tackle inflation. The President of the European Central Bank (ECB), Christine Lagarde signalled for several more interest rate rises in the coming months.

PERFORMANCE & ACTIVITY

Despite a volatile backdrop, the Fund gained ground in absolute and relative terms during the quarter. Stock returns across the market continued to be dominated by macro-economic and geopolitical considerations which have created a great deal of uncertainty for short term corporate earnings but also some exciting valuations for companies with strong and growing market positions, including innovative businesses with leading technology, products or operations that are hard to replicate, providing strong economic moats.

Fund outperformance was aided by overweight positions in Retailers and Life Insurance and underweight positions in Beverages and zero exposure to Oil, Gas & Coal. Overweight positions in Chemicals and Software & Computer Services and zero exposure to Industrial Metals & Mining impacted performance. Fund activity included taking profits in Halma, DS Smith and Sabre Insurance. We sold out of Haleon and added to Convatec, NatWest, Unite and Segro. At a stock level, Oxford Instruments, Dunelm, Porvair and Bioventix were amongst the biggest contributors to performance whilst detractors included National Express, Strix, Wise, NCC and Halma.

OUTLOOK

The prolonged conflict in Ukraine will likely result in continued high commodity prices, high inflation and adverse economic

impacts. The ending of China's zero-Covid policy has led to outbreaks in major cities which could lead to short term disruption and its impact will be unpredictable with reverberations likely to be felt around the world. Relations between the UK and EU have somewhat thawed under new Prime Minister Rishi Sunak, although a long-term solution over the implementation of trading arrangements for Northern Ireland are still required. Increases in the cost of living will likely mean negative implications for consumer spending. Conservative Party infighting over various aspects of government policy could result in elevated political risk. Labour disputes are likely to be a feature going forward as wage increases fail to keep pace with inflation and disputes could spread across even more industries. European economic activity is likely to be impacted by its proximity to the conflict in Ukraine. The Democrats performed better than expected in US mid-term elections although the loss of a majority in the House of Representatives could mean that President Biden will find it difficult to enact his legislative agenda for the rest of his first term in office. Central bankers around the world have continued to increase interest rates in order to combat inflation and the economic impact of less accommodative monetary policy could be painful. Whether inflation in fact has peaked and the extent of potential further rate increases going forwards, will have a large impact on investor sentiment. While, as ever, some political and economic risks lie ahead, we remain focused on finding new opportunities in companies that meet our strict criteria of strong earnings growth, high margins and strong cash flows.

For 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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