

R&S UK Equity Opportunities Fund

Q1 2023 Commentary



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PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	2.5%	12.9%	-8.5%	28.5%	7.2%	79.2%
FTSE All Share TR GBP	3.1%	12.3%	2.9%	47.4%	27.8%	75.9%
IA UK All Companies	2.6%	12.5%	-2.0%	42.1%	18.2%	69.0%
Sector Quartile	3	2	4	4	4	2

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

MARKET REVIEW

The UK and US stock markets both performed well in the quarter despite the turmoil in the banking sector caused by the failures of Silicon Valley Bank and Credit Suisse. The conflict in Ukraine continues to show no sign of ending and the Federal Reserve continued to increase the Fed funds rate, which reached 4.75%-5.0%. However, Federal Reserve chair Jay Powell seemed to be a bit more dovish on the outlook for further rate increases at the end of the period as the effects of banking failures remain to be seen. In the UK, Prime Minister Rishi Sunak signed the so-called Windsor framework with his EU counterparts which aims to reduce frictions caused by the Northern Ireland protocol. The Bank of England voted to raise interest rates by another 0.25% in March, although there was a two-way split, with seven members voting for the increase and two members voting to hold rates. The European Central Bank also continued to raise interest rates, which reached 3.0%, in an attempt to tackle inflation. The President of the European Central Bank (ECB), Christine Lagarde acknowledged that inflation remained high but that future interest rate decisions would depend on the economic environment. All the UK indices, with the exception of the small cap index, were in positive territory for the quarter. Elsewhere, the Brent Crude oil price decreased to below \$80, largely due to diminishing demand fears.

PERFORMANCE & ACTIVITY

Despite a volatile backdrop, the Fund was in positive territory 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 and provide strong economic moats. Fund underperformance was attributed to overweight positions in retailers and media and underweight positions in industrial metals & mining and tobacco. Overweight positions in investment banking & brokerage services and travel & leisure and underweight positions in banks and aerospace & defence impacted performance. At a stock level, 4imprint (media), Marlowe (industrial services), RELX (information services) and St James's Place (financials) were among the biggest contributors to performance while detractors included Advanced Medical Solutions (health care), Liontrust (financials), NCC Group (technology), Wise (technology). Fund activity included starting a position in Integrafina, an investment platform for UK financial advisers. We increased our positions in Haleon, Sosandar, Tatton Asset Management, Mattioli Woods, Wise and On the Beach. We sold out of XP Power, Ashmore, Knights and Smith & Nephew and reduced our positions in Sabre Insurance, NCC and Hargreaves Lansdown.

OUTLOOK

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

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impacts. The ending of China's zero-Covid policy will lead to the Chinese economy re-opening to the world and this could have implications for raw materials prices with reverberations likely to be felt around the world. Relations between the UK and EU have improved under Prime Minister Rishi Sunak, especially after the Windsor framework agreement, which should bode well for future cooperation. Increases in the cost of living could have negative implications for consumer spending. Local elections in May are unlikely to go well for the Conservative Party which could result in elevated political risk. European economic activity is expected to remain impacted by its proximity to the conflict in Ukraine. Heightened geopolitical tensions between the US and China have increasingly led to technology decoupling and trade restrictions which show no sign of abating, and this could impact future long-term growth. 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 has in fact 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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Past performance is not necessarily a guide to future returns.

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