

R&S UK Equity Opportunities Fund

Q2 2023 Commentary



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PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	0.6%	3.2%	7.4%	10.5%	-1.4%	73.2%
FTSE All Share TR GBP	-0.5%	2.6%	7.9%	33.2%	16.5%	78.0%
IA UK All Companies	-0.8%	1.8%	6.1%	23.5%	7.5%	68.5%
Sector Quartile	1	2	2	4	4	2

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

MARKET REVIEW

The UK stock market performed poorly although the US stock market performed well in the quarter largely due to the enthusiasm for artificial intelligence boosting the technology and semiconductor sectors. The conflict in Ukraine has continued and shows no sign of ending. The Federal Reserve didn't increase interest rates at its latest meeting although the fed funds rate is now at 5.00%-5.25%. However, Federal Reserve chair Jay Powell was hawkish in his outlook and signalled that there would be further rates increases going forward. The Bank of England surprised the markets and voted to raise interest rates by a higher than expected 0.50% to 5.00%, due to persistent inflation, although there was a two-way split, with seven members voting for the increase and two members voting to hold rates. All the UK indices were in negative territory in the quarter. Elsewhere, the Brent Crude oil price decreased to below \$75 in the quarter largely due to demand fears. The European Central Bank (ECB) raised interest rates by 0.25% to 3.0% in an attempt to tackle inflation. The President of the ECB Christine Lagarde acknowledged that inflation remained high and signalled a further interest rate increase although other policymakers seemed to be more dovish on the prospect of further increases.

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, providing strong economic moats. Fund outperformance was aided by overweight positions in Retailers and Industrial Transportation and zero positions in Industrial Metals & Mining and Tobacco. Overweight positions in Investment Banking & Brokerage Services and Travel & Leisure and underweight positions in Banks and Consumer Services impacted performance. At a stock level, Wise (Technology), Sage Group (Software), Dechra (Animal pharmaceuticals) and Ashtead (Industrial Transportation) were amongst the biggest contributors to performance whilst detractors included On the Beach (Leisure), Liontrust (Financials), St James's Place (Financials) and MJ Hudson (Professional Services) lagged. Fund activity included starting a position in Keystone Law, a platform for self-employed lawyers. We increased our positions in Aquis Exchange, Instem, Helical, Diaceutics, SSP and Close Brothers. We sold out of James Halstead. We reduced our positions in Hotel Chocolat, Microlise, Mortgage Advice Bureau, Marlowe, NCC and Checkit.

OUTLOOK

The prolonged conflict in Ukraine shows no sign of abating and will likely continue to have adverse economic impacts. China's economic recovery from the ending of its zero-Covid policy has been sluggish, and all eyes will be on whether the

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authorities announce any new policies to stimulate the economy, with reverberations likely to be felt around the world. Relations between the UK and EU have improved under Prime Minister Rishi Sunak which should bode well for future co-operation. Cost of living pressures have continued, and this could be further exacerbated by many homeowners having to refinance their mortgages at much higher interest rates, which could have negative implications for consumer spending. The Conservative Party faces a tricky set of by-elections and defeat in all, or most of them, could result in elevated political risk. European economic activity is likely to be impacted by its proximity to the conflict in Ukraine. Heightened geopolitical tensions between the US and China show no sign of abating and this could impact future long-term growth. Furthermore, the US and some European countries have attempted to de-risk their relationship with China, in an attempt to limit corporate and economic exposure. Central bankers around the world have continued to increase interest rates to combat inflation which has been more persistent than economists have expected. Further rate increases are expected which could lead to economic recession. Whether inflation in fact has peaked and the extent of potential further rate increases going forwards, will have a large impact on investor sentiment. Artificial intelligence is increasingly at the forefront on investor's minds, and winners and losers will result from its disruptive impact. 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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