R&S UK Equity Opportunities Fund

Q3 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.1%	0.6%	13.6%	11.1%	-1.5%	60.7%
FTSE All Share TR GBP	1.9%	1.4%	13.8%	39.8%	19.7%	71.8%
IA UK All Companies	0.9%	0.1%	12.6%	25.9%	9.8%	59.3%
Sector Quartile	3	2	3	4	4	3

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

MARKET REVIEW

The UK stock market was mixed whilst the US stock market performed poorly in the quarter due to investor realisation that the world is likely heading for a “higher for longer” interest rate environment. The conflict in Ukraine has continued and shows no sign of ending. The Federal Reserve voted unanimously to hold the federal funds rate at its latest meeting although the fed funds rate is now at 5.25%-5.5%. However, Federal Reserve chair Jay Powell, was hawkish in his outlook and signalled that there could be a further rate increase this year. The Bank of England voted to hold interest rates at 5.25%, although it was a close vote, with five members voting to hold rates and four members voting to increase rates. The UK indices were mixed with the FTSE100 and FTSE Small Cap in positive territory whilst the FTSE250 was in negative territory in the quarter. Elsewhere, the oil price increased to above $90 in the quarter largely due to the extension of oil supply cuts until the end of the year by Saudi Arabia and Russia. The European Central Bank (ECB) raised interest rates by 0.25% to 4.0% in an attempt to tackle inflation. The President of the ECB, Christine Lagarde acknowledged that inflation remained high although policymakers seem divided on the prospect of whether further interest rate increases are needed.

PERFORMANCE & ACTIVITY

Against a volatile backdrop, the Fund was in negative 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 underperformance was aided by overweight positions in Industrial Support Services and Software and Computer Services and underweight positions in Consumer Services & Beverages. Overweight positions in Investment Banking and Brokerage Services and Life Insurance and zero weighting in Oil, Gas and Coal and Industrial Metals and Mining impacted performance. At a stock level, Tatton Asset Management (Financials), Instem (Health Care Services), 4imprint (Media) and Keystone Law (Legal Services) and were amongst the biggest contributors to performance whilst detractors included St James’s Place (Financials), GlobalData (Media), Prudential (Insurance) and Ashtead (Industrials). Fund activity included increasing our positions in Telecom Plus, Integrafin, Close Brothers, FDM, Advanced Medical Solutions, Legal & General, Hargreaves Lansdown, Diaceutics and Aquis Exchange. We sold out of Dechra, Bellway and Lloyds. We took profits in Ashtead, RELX, Astrazeneca and Marlowe and reduced our position in Checkit.

OUTLOOK

The prolonged conflict in Ukraine shows no sign of abating and will likely continue to have adverse economic impacts. Chinese economic recovery from the ending of its zero-Covid policy has been sluggish, and all eyes will be on whether stimulus measures by the authorities prove to be effective at revitalising 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. Labour's defeat of the Scottish National Party during a recent by-election could be an indication as to their prospects at the next general election. 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. The oil price is at elevated levels which could have negative implications for inflation. The European Central Bank has continued to increase interest rates to combat inflation which has been more persistent than economists have expected, although the Federal Reserve and Bank of England held interest rates at their most recent meeting. Further interest rate increases are possible although it seems like we are towards the end of the interest rate hiking cycle. Whether inflation in fact has peaked and the extent of potential further rate increases going forwards, will have a large impact on investor sentiment. Investor sentiment will also be impacted by the realisation that the world is likely heading for a “higher for longer” interest rate environment. 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**