

# EdenTree R&S UK Equity Opportunities Fund

## Q1 2024 Commentary



### PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	2.9%	9.9%	10.5%	-1.9%	16.6%	55.7%
FTSE All Share TR GBP*	3.6%	6.9%	8.4%	26.1%	30.3%	75.3%
IA UK All Companies	2.9%	7.5%	7.6%	11.1%	23.7%	59.3%
Sector Quartile	3	1	1	4	4	3

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

### MARKET REVIEW

The US stock market performed well in the quarter as Federal Reserve officials indicated that they still expected to cut interest rates despite increasing the forecasts for economic growth in 2024. The UK stock market indices were mixed in the quarter. The expectation still remains that interest rates have peaked and that they will be cut over the course of 2024. The conflict in Ukraine has continued and shows no sign of ending and Israel's military campaign in Gaza has also continued. The Federal Reserve voted unanimously to hold the federal funds rate at 5.25%-5.5% during its latest meeting. Despite economic growth being stronger than expected, Federal Reserve chair Jay Powell signalled that interest rate cuts in 2024 were still possible. The Bank of England voted to hold interest rates at 5.25%, with eight members voting to hold rates and one member voting to cut rates. In the UK, the FTSE 100 and FTSE 250 were in positive territory in the quarter, whilst the small cap index was in negative territory on a price basis and excluding dividends. Elsewhere, the oil price increased to above \$85 in the quarter as forecast demand is now expected to exceed supply. The European Central Bank (ECB) held interest rates at 4.0%. The President of the ECB, Christine Lagarde indicated that potential interest rate cuts would be data dependent whilst some policymakers remain concerned that rapid wage growth would keep inflation above target.

### PERFORMANCE & ACTIVITY

Against 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 performance was aided by overweight positions in Media and Industrial Support Services, underweight positions in Personal Care, Drug & Grocery Stores and zero weighting in Industrial Metals & Mining. Overweight positions in Life Insurance and Investment Banking & Brokerage Services and underweight positions in Banks and Aerospace & Defence impacted performance. At a stock level, 4imprint (Media), Mattioli Woods (Financials), Convatec (Health Care) and Next (Retail) were amongst the biggest contributors to performance. Mattioli Woods was subject to a bid during the period. Detractors included St James's Place (Financials), Sosandar (Apparel Retailer), Close Brothers (Financials) and Global Data (Media). Fund activity included starting positions in Grainger, a residential landlord. We also increased our positions in Alpha Group, Rightmove, Diaceutics, Global Data and Advanced Medical Solutions. We sold out of Checkit, took profits in Wise, RELX and Ashtead and reduced our position in Essensys.

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### OUTLOOK

The prolonged conflict in Ukraine shows no sign of abating and will likely continue to have adverse economic impacts. Israel's military campaign in Gaza has continued and whether it expands into a wider regional conflict could lead to repercussions around the world. There have been increased attacks in the Red Sea on commercial vessels which could have a negative impact on global trade via increased supply chain disruption. The oil price has increased as demand has been more resilient than expected, and coupled with tightened supply, could have negative implications for inflation. The Chinese economy seems to have stabilised although an important question will be whether authorities opt to go beyond targeted stimulus measures to revitalise 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 shown some signs of abating, but high interest rates could see many homeowners having to refinance their mortgages at much higher rates, which could have negative implications for consumer spending. Furthermore, despite the cuts to National Insurance announced in the Budget, the tax burden for the UK taxpayer remains high. Whether the UK can boost its economic growth rate will be important amidst the shadow of a general election which is likely to be held at some point in 2024. European economic activity is likely to be impacted by its proximity to the conflict in Ukraine. US-China relations have somewhat thawed although tensions over trade remain. 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 European Central Bank, Federal Reserve and Bank of England all held interest rates at their most recent meeting. The Federal Reserve was more dovish regarding potential interest rate cuts in 2024 whilst both the ECB and Bank of England were more cautious in their outlook. Arguably the biggest questions regarding monetary policy are around the timing and pace of interest rate cuts and both the timing and the pace 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.

PERFORMANCE DISCRETE	12 Months to	12 Months to	12 Months to	12 Months to	12 Months to
	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Fund (B Class)	-17.9%	44.8%	-3.0%	-8.5%	10.5%
FTSE All Share TR GBP*	-18.5%	26.7%	13.0%	2.9%	8.4%
IA UK All Companies	-19.2%	37.8%	5.3%	-2.0%	7.6%
Sector Quartile	2	2	4	4	1

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

Past performance is not necessarily a guide to future returns.

\*As the Fund invests in a diverse range of UK companies and sectors, we compare the Fund's performance to the FTSE All Share Index, however the portfolio manager is not bound or influenced by the index when making investment decisions.

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A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass.

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