Q2 2026 Commentary

EdenTree Sustainable Managed Income Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund (B Class)	7.8%	7.1%	12.3%	39.0%	36.3%	88.2%
FTSE All-Share TR GBP*	4.7%	7.2%	21.9%	53.1%	67.9%	129.8%
IA Mixed Investment 40-85% Shares	9.5%	7.6%	17.1%	38.1%	32.4%	97.0%
Sector Quartile	4	3	4	3	2	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 30.06.2026

Market review

After a volatile start to the year, triggered by war in the Middle East, global equities performed strongly in the second quarter. Bond markets also recovered from the sharp rise in yields caused by the war. This recovery was driven by an uneasy truce as peace negotiations between the US and Iran got underway.

The supercharged rally in artificial intelligence (AI) related stocks resumed, with some extraordinary gains in areas such as semiconductor equipment and memory chip manufacturing. However, the scale of investment flowing into AI infrastructure raised concerns over stretched valuations, prompting talk of a bubble in the sector and leading to periods of sharp share price volatility. Adding to the fevered debate over AI-related valuations was the listing of SpaceX in the US, which became the largest ever IPO on record, valued at $2.6 trillion shortly after listing, despite not being profitable.

In the UK, the resignation of Prime Minister Sir Keir Starmer had little impact on markets, mainly because his likely successor, Andy Burnham, committed to respecting Starmer's existing fiscal rules.

Fixed income markets were focused on central bank interest rate decisions and the inflationary impact of higher energy prices. Expectations for further rate rises eased during the quarter, as there was limited evidence of energy costs pushing broader prices higher. Although the European Central Bank did move its benchmark rate 25 basis points (bps) higher, many saw this move as unnecessary. In the US, new Federal Reserve Chair Kevin Warsh also adopted a more hawkish tone than anticipated. The Bank of England (BoE) kept rates unchanged, signalling it remained alert to inflation risks but was yet to see signs of more persistent price pressures emerging.

Performance and activity

The EdenTree Sustainable Managed Income Fund performed strongly over the quarter, significantly outperforming its benchmark, the FTSE All Share.

Our 'value' basket was the strongest performer. Financial holdings were particularly strong, with the share prices of both ABN Amro and Standard Chartered rising significantly. Both banks saw their shares supported during the quarter by strong Q1 earnings. Other strong performers in the value basket included non-financial holdings Veolia Environnement, a waste and water management company, and Rexel, a distributor of electrical products.

Our infrastructure basket also performed strongly. Foresight Environmental Infrastructure was a notable contributor, supported by a resilient set of annual results and the continuation of its £30 million share buyback programme. Though the infrastructure basket has been a relatively poor performing basket over recent years, these holdings offer a high yield, reliably covered dividends and diversification into areas such as renewable energy generation.

The one basket that performed relatively badly was our 'capital preservers' basket, these being higher yielding stocks in more defensive industries. We include pharmaceuticals in this, which has been a difficult sector this year amid ructions over US tariffs; the share prices of GSK and Sanofi, which are both holdings, fell slightly over the quarter. Another weak performer was CME Group, the US derivatives exchange operator, due to market concerns over rival products from prediction market operators, which we do not yet consider to be material.

We did not trade much during the period, as the portfolio was responding well to market conditions. We did add to Veolia Environnement and to Standard Life after both reported strong sets of results. We trimmed back some of our bank holdings; this included HSBC, after its share price had a very strong run. We also sold out of Accenture, the globally dominant IT consulting firm, as its share price fell sharply amid concerns over the impact of AI on its business. While we disagree with some of the arguments around the impact of AI on many businesses, in this instance there appears to be grounds for concern, so we exited the position.

Outlook

The tentative peace settlement in the Middle East appears to have eased investor concerns about the inflationary impact of higher energy prices, reducing expectations of interest rate rises. In fact, economic growth has held up well in the US and, to a lesser extent, in the UK. While energy price inflation is having some impact on headline inflation, core inflation (excluding energy costs) is slightly ahead of most central banks' target levels. However, our expectation is that there are unlikely to be any interest rate hikes by the BoE in the immediate future.

Of greater concern is the enormous investment being directed towards AI infrastructure, which has created extraordinary equity market distortions. There is little dispute that AI will have huge ramifications for many aspects of society, but we believe there is increasing scope for a short-term equity bust as reality falls short of the hype, not least as the revenue models of the large model providers are not clear.

Our focus as income investors means that we have little exposure to a potential technology sector blow-up, but a broader equity market sell-off would be unavoidable. However, our portfolio is widely diversified and our search for sustainable sources of yield typically leads us to cheaper, less crowded parts of the market. We also have currently around 23% of the portfolio in fixed income securities.

Longer term, we will continue to focus on our remit: to generate a resilient yield, with the potential for capital growth. Vital to this is our investment process, which incorporates our thorough sustainability assessment, the EdenTree Standard.

Performance Discrete Rolling 12 months	12 months to 30/06/2022	12 months to 30/06/2023	12 months to 30/06/2024	12 months to 30/06/2025	12 months to 30/06/2026
Fund (B Class)	-1.6%	-0.3%	8.9%	13.6%	12.3%
FTSE All-Share TR GBP*	1.6%	7.9%	13.0%	11.2%	21.9%
IA Mixed Investment 40-85% Shares	-7.2%	3.3%	11.8%	5.5%	17.1%
Sector Quartile	1	4	4	1	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
*FTSE All-Share Index – This benchmark is a comparator against which the overall performance of the Fund can be measured. It has been chosen as the Fund's average market and sector exposure is biased in favour of UK equities and corporate bonds. The portfolio manager is not bound or influenced by the index when making investment decisions and the Fund's holdings may deviate from the benchmark's constituents.

Past performance is not necessarily a guide to future returns.

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