EdenTree Managed Income Fund

Q1 2025 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	4.8%	1.4%	7.2%	10.8%	52.5%	56.3%
FTSE All Share TR GBP*	4.5%	4.1%	10.5%	23.3%	76.5%	81.7%
IA Mixed Investment 40-85% Shares	-1.2%	-0.1%	3.3%	8.5%	44.5%	61.4%
Sector Quartile	1	1	1	2	2	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Data as at 31.12.2024

MARKET REVIEW

Global equity markets fell during the first quarter of 2025, with political developments in the US being a key driver. The outperformance of the US market during 2024 began to unravel, as the incessant noise around President Donald Trump's trade tariffs eroded confidence in the US market. This prompted a shift in asset allocation by institutional investors largely towards Europe. Cracks also appeared in US economic data, as consumer confidence began to erode, while inflation expectations remained stubbornly high.

The move to European stocks was also driven by the German government making changes to its so-called 'debt brake', a constitutional limit on the size of the fiscal deficit it can run. This resulted in Germany announcing a plan to release historically high levels of fiscal firepower on defence and infrastructure spending. This prompted a surge in German and broader European equities alongside a lurch higher in German government bond yields.

The US Federal Reserve (Fed) kept interest rates unchanged in the first quarter of 2025, with Fed officials cautious about reducing interest rates due to the possible inflationary effects of Trump's tariffs. The European Central Bank cut its key deposit facility rate twice in the period to 2.5%. The Bank of England (BoE) also cut rates during the period by 25 basis points (bps) in February, taking the base rate to 4.5%. However, the BoE held rates at its March meeting, citing inflationary pressure and economic uncertainty as reasons for caution.

PERFORMANCE & ACTIVITY

The EdenTree Managed Income Fund outperformed during the quarter, ranking second overall in its sector out of 210 funds. Our fund has long held the view that US equities were unsustainably overvalued and, given our income-focused mandate, the resulting dividend yields far too low. Instead, we were more exposed to UK and European equities, where we believed companies were more attractively valued. The recent rotation in markets, therefore, played in our favour during the period.

Our investment baskets, apart from our infrastructure basket, performed well. Of note, our value basket performed strongly, as this was largely comprised of banks and insurance companies, which tend to perform well when interest rates are relatively high. For example, UK bank Lloyds, German insurer Talanx and French insurer AXA performed strongly in sterling terms over the quarter.

Despite the relative underperformance of our infrastructure holdings compared to the rest of the fund, we did have exposure to companies we believe will benefit from higher German infrastructure spending. Notably, the share price of SPIE, a provider of technical services for infrastructure assets, also rose during the period.

Where the fund did have exposure to the US market, it was not in the technology sector. CME, the world's largest derivatives exchange operator, rose in sterling terms, as market volatility tends to be beneficial to exchange operators.

In terms of activity, our portfolio positioning did not change much over the quarter. We sold US home-improvement store Home Depot. We bought Home Depot around 18 months ago, and the company's share price rose during the time held. However, we believe the business may struggle during a consumer downturn and due to US import tariffs (which could result in higher retail prices on its imported products). We recycled the proceeds of Home Depot into more defensive companies, like Veolia Environnement.

Overall, the fund is still invested in five main baskets: value, capital preservers, dividend growth, fixed income and infrastructure. Our value basket remains the largest allocation, at around 28% of the total, with capital preservers, dividend growth and fixed income all around 20%. Our infrastructure basket, which largely comprises UK-listed renewable energy generators, is around 10%.

OUTLOOK

There was a dramatic shift in market sentiment during the period. We had been concerned for over a year that valuations in the US were inflated relative to history and other markets, especially in stocks related to artificial intelligence. The recent rotation in markets only goes a little way towards redressing that imbalance, and if the US is entering a phase of weak growth and high inflation – stagflation – then we can expect the rotation to continue. What we cannot take a view on is the extent of the unintended consequences of the current US government's trade policy, which changes daily, be they reciprocal tariffs or new trade flows that sideline the US.

Therefore, we intend to maintain our defensive positioning. We do own the shares of some higher growth businesses at what we consider to be tolerable valuations and where we have high conviction in the sustainability of their dividends. We also own more defensive businesses, particularly in our capital preserver basket, such as our current largest holding Veolia Environnement. However, we have always held the view that we cannot build a portfolio around a specific set of potential circumstances and that a portfolio needs to be widely diversified to remain resilient through variable market conditions, hence our focus on investment baskets as a risk management tool.

Our remit remains to generate a resilient yield, with the scope for capital growth. Vital to this is our investment process, whereby responsible and sustainable factors are integrated into the investment management process, with our fund managers and responsible investment team working side by side.

PERFORMANCE DISCRETE	12 Months to 31/03/2021	12 Months to 31/03/2022	12 Months to 31/03/2023	12 Months to 31/03/2024	12 Months to 31/03/2025
Fund (B Class)	27.3%	8.2%	-3.3%	6.9%	7.2%
FTSE All Share TR GBP*	26.7%	13.0%	2.9%	8.4%	10.5%
IA Mixed Investment 40-85% Shares	26.5%	5.3%	-4.6%	10.1%	3.3%
Sector Quartile	2	1	2	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.

*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 benchmarks constituents.

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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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