

EdenTree Green Future Fund

Q1 2025 Commentary



PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	-5.3%	-6.1%	-3.1%	9.2%
MSCI ACWI Net TR GBP**	-4.3%	1.5%	4.9%	27.1%
IA Global	-4.7%	-1.3%	-0.4%	16.6%
Sector Quartile	3	4	3	3

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

*Inception Date 24th January 2022

Data as at 31.03.2025

MARKET REVIEW

Global equity markets fell during the first quarter of 2025, with political developments in the US being a key driver. At the start of the quarter, technology and growth stocks extended their rally. However, drama quickly ensued, sparked by the release of the Chinese generative artificial intelligence (AI) model DeepSeek, which called into question the high valuations of the US AI mega caps.

The outperformance of the US market during 2024 then began to unravel. President Trump's threat to implement significant worldwide tariffs and their potential impact on the global economy prompted investors to take a more cautious approach to US assets, particularly equities. Consequently, the period saw a significant rotation out of the US in favour of Europe.

While this rotation was fairly broad-based, European defensive stocks gained ground on the realisation that European nations would need to increase their defence spending, as the US signalled a more isolationist stance. The change in fiscal tone across Europe was particularly evident in Germany where the incoming coalition announced plans to expand both infrastructure and defence spending by reforming constitutional rules on fiscal borrowing.

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 Green Future Fund underperformed both the MSCI ACWI Net TR Index and the IA Global peer group during the first quarter of 2025. From a regional standpoint, the fund's overweight European exposure was a positive; however, much of Europe's positive performance was driven by the aerospace and defence sector and the energy sector, areas which do not align with the fund's remit of investing in environmental solutions. Similarly, Europe's banks also performed well, but the fund does not hold banking stocks due to their limited contribution to environmental efficiency. That said, the fund's underweight allocation to the technology sector was positive. Firstly, the lack of exposure to the Magnificent 7 stocks, which led the downturn, was supportive, and the Fund's software and analog semiconductor holdings bucked the broader sector's losing trend.

Of the fund's seven core themes, water infrastructure, environmental services and the circular economy helped shield the portfolio from the wider market turbulence. These themes are all perceived to be defensive, as they typically provide critical services that are less exposed to headline geopolitical concerns. Veolia Environnement, the French utility company, was

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the portfolio's standout contributor after its 2024 results and guidance for 2025 both beat market expectations. Enel, the largest private renewable energy operator in the world, and Mueller Water, a manufacturer and distributor of water infrastructure products, also posted similarly solid results. Among the fund's detractors were Regal Rexnord, a manufacturer of electric motors and power transmission components, Clean Harbours, a provider of environmental and industrial services, and Federal Signal, a leader in innovative safety equipment. All three companies lost ground after their results failed to meet market expectations.

In terms of portfolio activity, at the start of the quarter, we reduced the fund's exposure to the semiconductor sector by trimming our position in Applied Materials. This proved to be extremely well-timed given the steep declines later recorded by many technology companies. Later in the period, we took advantage of the largely indiscriminate nature of the market declines by adding to positions that we felt had been unfairly punished. These included Prysmian and Schneider Electric in the alternative energy theme and Japanese boiler manufacturer Miura within our energy efficiency theme. In our view, market turbulence represented an ideal opportunity for us to top-up our positions in these solid companies at discounted valuations.

OUTLOOK

Looking ahead, geopolitical and macroeconomic uncertainty is continuing to reside at elevated levels. Due to the fast-changing nature of US economic policy – particularly in terms of tariffs and the impact they are having on global markets – we feel it is prudent for the fund to be defensively positioned and well diversified from both a regional perspective and across our seven environmental themes.

While we see a lot of pessimism being priced in by markets, we feel it is important not to lose sight of the secular environment drivers that continue to support the companies that we invest in. Putting politics to one side, the global population is continuing to increase and middle classes are expanding, placing enormous pressure on the planet's finite natural resources. Our conviction about our themes and the companies providing valuable and much-needed environmental solutions remains high.

In our view, the green revolution will continue to offer investors compelling risk-adjusted returns over the long term, regardless of economic cycles and geopolitical discord. Our process remains unchanged, we continue to invest in companies with wide economic moats, strong profitability profiles, robust balance sheets and business models that do not rely on government subsidies or tax breaks. For this reason, we continue to avoid those companies producing renewable energy or manufacturers of electric vehicles – while we want these industries to thrive from an environment standpoint, as investors we see too many risks in these areas.

Finally, we are pleased to remind you that the fund has adopted the Financial Conduct Authority's Sustainability Disclosure Requirements (SDR) 'Sustainability Impact' label, which indicates to investors that the fund invests with an aim to achieve a predefined, positive and measurable environmental and/or social impact. This is an important milestone in recognising how the fund sees value from an investment perspective alongside the impact we expect to deliver.

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)			0.9%	9.7%	-3.1%
MSCI ACWI Net TR GBP**			-0.7%	22.1%	4.9%
IA Global			-2.8%	16.8%	-0.4%
Sector Quartile			1	4	3

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

Past performance is not necessarily a guide to future returns.

*Inception: 24 Jan 2022

**The MSCI ACWI GBP Net Total Return Index was adopted as the Fund's comparative benchmark on 1 January 2024, replacing the FTSE World TR GBP. As the Fund invests globally in companies whose products address environmental and sustainability challenges, we compare the Fund's performance to the MSCI ACWI GBP Net Total Return Index. The portfolio manager is, however, not bound or influenced by the index when making investment decisions and the fund's holdings may deviate from the benchmark's constituents.

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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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