EdenTree UK Equity Fund

Q1 2025 Commentary

edentree investment management

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	-0.8%	-3.3%	-0.3%	-3.0%	24.0%	24.7%
FTSE All Share TR GBP*	4.5%	4.1%	10.5%	23.3%	76.5%	81.7%
IA UK All Companies	0.1%	-1.1%	5.0%	10.8%	60.7%	58.2%
Sector Quartile	3	3	4	4	4	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Data as at 31.03.2025

MARKET REVIEW

UK equities rebounded in the first quarter of 2025 as investors rotated out of US equities and into European and UK markets. This appeared to be an asset allocation call by institutional investors following the incessant noise around US tariffs and as cracks started to appear in US economic data.

UK stocks rose but not by as much as in the rest of Europe; in particular, German stocks rallied sharply following the announcement of an enormous spending increase on defence and infrastructure. The UK's Office for Budget Responsibility revised UK GDP forecasts downward while the government announced increased defence spending, further welfare reforms and civil service spending cuts. This weak economic backdrop was accompanied by stubbornly high inflation, leaving the UK economy perilously close to stagflation. The UK's 10-year gilt yield rose to its highest level since before the 2008 financial crisis.

With interest rates remaining persistently high, banks performed strongly. Defence stocks also performed well given the increase in defence spending. Companies with exposure to consumer spending performed badly, notably retailers.

PERFORMANCE & ACTIVITY

The EdenTree UK Equity Fund underperformed the market during the quarter. A contributor to this was our relatively low exposure to banks and defence companies (we have no exposure to the latter given our sustainable investment approach). There were also some stock-specific drivers. While we did not have significant exposure to the domestic UK economy, we did have some, such as retailer Dunelm and building materials group Marshalls. The share prices of both companies fell during the quarter. The share prices of construction equipment rental group Ashtead and pest control company Rentokil also declined over the quarter due to their exposure to the US.

There were some bright spots. Retailer Next bucked the trend in its sector after continuing to perform strongly as a business. Prudential, which had been a significant drag on performance in 2024, rebounded strongly.

Activity in the portfolio was limited to managing existing positions rather than adding new holdings. We took profits in stocks such as analytics company RELX, after a very strong year, and safety equipment company Halma, which performed well as a business and as the position size approached 5%.

OUTLOOK

The rotation in asset allocation has not fundamentally changed our view that UK equities are attractively valued both relative to their own history and to other markets. The chaos unleashed by the US president has narrowed the gap in valuations relative to the US, but at the cost of all equity markets moving lower. We now find ourselves in a position of extreme uncertainty, with no obvious time limit. The unintended consequences of disrupting global supply chains will echo around equity markets in ways that are impossible to predict, but there may be a silver lining in that some high-quality equities start to offer attractive entry prices. Even so, the noise in markets will be hard to avoid.

Our portfolio contains a range of compounders (lower growth but reliably steady businesses) through to higher growth, more speculative businesses, but we remain confident in the overall risk and reward prospects for the portfolio. It remains a widely diversified portfolio, which is spread across many different industries and sectors that we believe should offer resilience against the unpredictable. Vital to this is our sustainable investment process, which we feel offers added due diligence and screening across all the fund's holdings to ensure that we only invest in businesses that we confidently believe are engaging in best practice across all aspects of their operations.

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)	32.6%	-3.6%	-6.5%	4.0%	-0.3%
FTSE All Share TR GBP*	26.7%	13.0%	2.9%	8.4%	10.5%
IA UK All Companies	37.8%	5.3%	-2.0%	7.6%	5.0%
Sector Quartile	3	4	3	4	4

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.

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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Firm Reference Number 527473.