RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END SEPTEMBER 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.34%	-0.09%	0.05%	4.50%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-0.41%	-0.12%	-0.20%	4.83%	-	-
IA £ Corporate Bond	-0.52%	1.21%	1.24%	15.15%	-	-
Sector Quartile	2	4	3	4	-	-

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

YIELDS

	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21
Distribution	1.53%	1.53%	0.77%	0.72%	0.65%	0.84%
Underlying	1.13%	1.13%	0.77%	0.72%	0.65%	0.84%

REVIEW

Short-dated gilt yields were considerably higher as global central banks began to signal a shift away from ultra-loose monetary policy, notably in response to mounting and pervasive inflationary pressures. Whilst growth risks from COVID19 and constrained supply chains persist, the US Federal Reserve policymakers have moved to signal a reduction in monetary policy stimulus whilst remaining cautious on employment data. The FTSE UK Gilts under 5-tear yield opened at 0.19% and fell to a low of 0.14% in July and rising to close near the high of 0.45%.

Whilst the Bank of England left its main policy rate unchanged, policymakers have also revised previous guidance by stating that a potential increase could occur prior to the curtailment of its asset purchase programme. The US Federal Reserve also brought forward the anticipated timing of a projected interest rate hike, with inflation proving less transitory than originally anticipated.

Credit spreads inched tighter with investors continuing their search for yield amidst ongoing central bank purchases. With sovereign debt yields higher, duration was the main driver of returns. Short duration corporate bonds outperformed their gilt counterparts over the period therefore, with higher running yields providing more protection against capital declines as prices declined.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of -0.34% was ahead of that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark's total return (-0.41%) over the period under review. Credit selection in financials contributed positively to fund performance, as did its lower interest rate sensitivity when anticipated timings of interest rate hikes were brought forward.

The Fund's shorter duration therefore aided relative performance vs. the wider sector as yields rose, particularly on longer-dated maturities. With credit spreads marginally tighter over the period, the Fund's higher credit beta compared to its benchmark was also a positive contributor.

Large cash inflows were utilised by establishing new holdings in Tritax BIG BOX REIT 2.625% 2026, Bupa 5% 2023, European Investment Bank 0.75% 2024 green bond, Land Securities 2.375% 2027, Royal Bank of Canada June 2026 covered FRN, Compass Group 2% 2025, Kommunalbanken 0.25% 2025, BNG Bank 1.625% 2025 and the newly-issued Bank of Nov Scotia March 2025 FRN. The Fund also added to existing holdings in Close Brothers 2.75% 2026, Siemens 1% 2025, Motability 3.75% 2026, Phoenix Group 6.625% 2025, Bank of Nova Scotia 2026 covered FRN, Zurich 6.625% perp (2022 call), Banco Santander 1.5% 2026, Places for People 2.875% 2026, ING Groep 3% 2026, A2 Dominion 4.75% 2022, Export Development Bank of Canada 1.375% 2023 and Landesbank Baden-Wurttemberg 1.125% 2025 green bond.

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OUTLOOK

The change in global central bank guidance away from justifying current loose monetary policy, premised on the assumption that higher-than-expected inflation is a temporary phenomenon, is gathering momentum. Whilst business activity risks being hampered by logistical and or supply constraints occurring in tandem with shortages in labour, it is apparent that underlying consumer demand is resilient. A slower pace of economic growth may prevail, with the emerging COVID19 variants proving less disruptive in the face of higher vaccination rates and immunity.

The case for the curtailment of asset purchases is arguably stronger if not overdue. With yields already rising to reflect a quicker implementation timeline of tighter policy, the Fund's lower interest rate sensitivity has proved timely and better positions it to weather a hawkish market environment. The risk is arguably the extent to which the Bank of England acts to reign in runaway consumer price or wage expectations. A softer growth outlook tempers the attractions of 'higher-beta' credits, particularly with risk premia having narrowed to historic lows. This warrants caution towards lower-rated assets.

We remain vigilant in seeking out opportunities to add to high quality credits, scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk in a low-yielding environment that owes itself largely to central bank intervention. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

To obtain 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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