RESPONSIBLE AND SUSTAINABLE STERLING 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)	-0.44%	1.11%	3.70%	14.64%	21.14%	69.26%
Amity Sterling Bond Benchmark	-0.98%	0.71%	-0.41%	14.41%	11.02%	50.14%
IA £ Strategic Bond	0.32%	2.17%	4.99%	15.63%	19.09%	63.31%
Sector Quartile	4	4	2	2	2	2

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

YIELDS

	Sept-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21
Distribution	3.20%	3.20%	3.14%	2.89%	3.13%	3.30%
Underlying	2.65%	2.65%	2.59%	2.34%	2.58%	2.75%

REVIEW

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 10-year yield began the period at 0.72% and fell to a low of 0.51% in August before rising to end at the high of 1.02%.

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. Corporate bonds outperformed gilts over the period therefore, notably those at the short end of the yield curve where running yields provided more protection against capital declines and the gilt market weakened.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund's total return outperformed its iBoxx Sterling Non-Gilts benchmark despite lagging compared to its IA strategic bond fund peer group for the period under review. The Fund's shorter relative duration position, particularly as yields rose on longer-dated maturities in which it is underweight, was the main driver of performance relative to benchmark.

The fund benefitted from its financial sector exposures as higher-beta credits outperformed. The Fund's niche exposures in PIBs also contributed positively to Fund performance over the quarter. These rallied in tandem with stronger risky assets on an improving economic outlook.

Strong cash inflows were used to establish new positions in Berkeley 2.5% 2031 green bond, the newly-issued World Bank 0.625% 2028 Sustainable Development Bond, Golden Lane 3.25% 2031 retail charity bond, the inaugural UK Treasury 0.875% 2033 Green gilt, Bupa Finance plc 4% perp (2032 call), Credit Agricole 1.874% 2031 (2026 call) and Legal & General 5.5% 2064 (2044 call). The Fund also added to existing holdings in Direct Line 4.75% perp (2027 call), Next plc 3% 2025, National Express Group 4.25% perp (2025 call), Aviva 4% 2055 (2035 call), Close Brothers 2% 2031, Greensleeves Homes Trust 5% 2030 retail charity bond, Aviva 7.875% preference shares, Royal London 4.875% 2049 (2039 call), CAF 5% retail charity bond, Co-Operative Group 11% 2025 and Dolphin Square 4.25% 2026 retail charity 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, our strategy of maintaining lower interest rate sensitivity based on under-priced inflation risks has benefitted the portfolio 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 risky assets.

We therefore 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. Large stimulus programmes that have distorted valuations are on the verge of ending. We continue to view the Fund's overall shorter relative duration profile as appropriate, also relying on higher cash levels to enhance overall portfolio liquidity whilst preserving capital.

YIELDS

The Distribution Yield reflects the amounts that may be expected to be distributed over the next 12 months as a percentage of the mid-market share price of the fund as at the date shown. The Underlying Yield reflects the annualised income net of expenses of the fund (calculated in accordance with relevant accounting standards) as a percentage of the midmarket share price of the fund as at the date shown. Both Yields are based on a snapshot of the portfolio on that day. The yields do not include any preliminary charge and investors may be subject to tax on distributions. The Distribution Yield is higher than the Underlying Yield because the fund's expenses are charged to capital. This has the effect of increasing the distributions for the year and constraining the fund's capital performance to an equivalent extent.

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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