Global Impact Bond

Q1 2023 Commentary

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PERFORMANCE

	3 Months	6 Months	ITD*
Fund Performance (B Class)	1.7%	4.2%	-12.0%
Markit iBoxx Global Green, Social and Sustainable GBP Hedged TR	2.5%	2.9%	-14.9%
IA Global Corporate Bond	1.9%	3.4%	-8.9%
Sector Quartile	2	2	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
*Inception Date 24th January 2022

YIELDS

Distribution	-
Underlying	-

MARKET REVIEW

At both its February and March policy meetings, the US Federal Reserve raised its benchmark interest rate by 0.25%, with policymakers still wary about elevated core price movements that are considerably higher than target levels. Concerns around US regional banks may well see policymakers pare back the magnitude of further hikes. The European Central Bank increased its main interest rate by 0.50% in February and by 0.50% in March, citing concerns around persistent inflation.

Bond yields were marginally lower with global central banks moderating the pace of monetary policy tightening. An uncertain path lies ahead for interest rates, however. At its February meeting, the Bank of England raised its base interest rate by 0.5%, followed by a smaller 0.25% interest rate hike in March as fragilities around the global banking sector emerged. Increased market volatility thereafter favoured safe-haven assets. The US 10-year yield began the quarter at 3.87% and finished the period at 3.47%.

After tightening considerably at the start of the year, credit spreads then rose sharply in March on the account of risk aversion stemming from the financials sector. Bank subordinated debt bore the brunt of the sell-off, with Credit Suisse's junior debt written down entirely as part of its Swiss-led rescue package. Outside financials, corporate debt outperformed sovereign debt. Credit spreads tightened notably in the period. Risky assets rebounded sharply as the debate over near-term peak benchmark interest rates gained traction. Corporate debt considerably outperformed government bonds over the period therefore, with lower-rated and higher-beta debt staging a significant rally, thereby recouping some of the relative underperformance registered in prior quarters of the year.

Credit spreads on higher quality corporate debt end the quarter slightly lower, despite March's bout of risk aversion. The decision by central banks to avail liquidity support to the financial system, rather than outright monetary stimulus led to a broad re-assessment of credit risk. A more challenging outlook for companies that could well result in higher default rates warranted higher risk premia.

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PERFORMANCE & ACTIVITY

The Global Impact Bond Fund's total return marginally underperformed its iBoxx Global Green, Social & Sustainability Bonds benchmark over the period and the IA Global Corporate Bond sector. The Fund's shorter relative duration proved detrimental with the underweight position in European rates contributing negatively to the relative returns of the portfolio. The fund's overweight position in Financials also proved unfavourable with the volatility of Credit Suisse and Silicon Valley Bank weighing on the sector. During the quarter the Fund added a social bond issued by the European Union and a green bond from Ile-de-France Mobilites which is responsible for managing and funding public transportation in the region Ile-de-France.

OUTLOOK

With central banks having moderated the pace of monetary policy tightening, guidance from global policymakers remains for higher rates, particularly as core inflation is uncomfortably higher than expected. Market participants are more dovish however, anticipating a looser stance by the end of the year and thereby making for greater volatility in asset prices.

Whereas the global economy has held up better than indicated by survey data at the turn of the year, recent concerns around the banking sector highlight fragilities in a financial system that has relied heavily on central bank stimulus until recently. A potential rise in defaults as debt is re-financed in tighter financial conditions appears increasingly likely. Also, higher inflation, particularly in the UK, continues to fuel labour market disquiet, which is impinging upon productivity. Whilst there is still scope to add to duration for instance via longer-dated government debt, a cautious stance towards credit has been maintained on the likelihood of a deteriorating economic environment. As such, we retain a bias towards higher quality corporate bonds which offer attractive risk-adjusted yield, alongside a higher allocation to gilts and supra-national debt. These should mitigate adverse impact of higher risk premia as the global economy decelerates.

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. We have added further interest rate sensitivity with the view that the rate hike cycle is close to completion and are now just above neutral. Having reduced cash, we are also relying on higher credit quality 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

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