GLOBAL IMPACT BOND FUND

COMMENTARY FOR QUARTER TO END MARCH 2022

PERFORMANCE

	ITD*
Fund Performance (B Class)	-4.95%
iBoxx Global Green, Social, Sustainability TR GBP	-5.72%
IA Global Corporate Bond	-4.34%

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

*Inception Date 24th January 2022 to end March 2022

YIELDS

	Mar-22
Distribution	-
Underlying	-

REVIEW

Over the quarter, global bond yields rose considerably as central banks moved to tighten monetary policy in response to stronger-than-expected inflation. The US Federal Reserve, like the Bank of Canada before it, embarked on its interest rate hiking cycle by raising its Federal Funds rate by 0.25% in March. Its policymakers also signalled that a tight labour market and the need to combat higher inflation are likely to warrant larger increases over the coming months. Longer-dated maturities were significantly weaker, as market participants anticipated a faster pace of monetary stimulus removal. The US 10-year yield began the period at the low of 1.52% before rising to a high of 2.48% in March, ending the period at 2.34%.

The Bank of England raised its base interest rate by 0.25% at both its February and March policy meetings, with the unprecedented rise in energy costs seeing policymakers revise price expectations higher in the near term. The European Central Bank, despite maintaining its key policy rates, announced faster reduction to its asset purchase programme.

Credit spreads rose over the period as risk premia rose in tandem with the marked sell-off in risky assets. This was most apparent at the lower end of the credit quality spectrum, with ‘credit beta’ underperforming earlier in the year. Improving risk sentiment as the quarter drew to a close saw corporate bonds recoup some losses however, leaving credit ahead of sovereign debt particularly at the long end of the curve.

PERFORMANCE & ACTIVITY

Despite the volatile market backdrop, the launch of the Global Impact Bond Fund proved a success, with the strategic risk and impact asset allocations of the fund being achieved within the desired implementation period.

The Fund’s total return of -4.95% since inception on 24th January outperformed relative to its iBoxx Global Green, Social and Sustainability Bonds benchmark (-5.72%) but lagged behind the IA Global Corporate bond sector (-4.34%). Relative performance was aided by its lower interest rate sensitivity, achieved via an underweight term structure position in longer-dated maturities. The fund initiated with an overweight allocation to both US and GBP markets, with EUR credit a significant underweight relative to the index. The fund also deployed capital into high quality sub-investment grade securities, thereby generating an overweight position in high yield, which also proved beneficial when risky assets rallied in late March. From a sector perspective, the fund has an active overweight to financials and is underweight to the Government sector.

The Global Impact Bond Fund ended the period with an 81% allocation to impact securities, where green bonds featured more prominently across sector, currency and credit rating. The fund added Euro denominated perpetual bonds of renewable energy provider Iberdrola and US-dollar non-preferred senior bonds of Rabobank. Notable social bonds that were added

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include those of financial institutions; One Main Financial and a Yorkshire Building Society social covered FRN. Both securities seek to address social issues, specifically providing affordable loans to those currently underserved by the market.

OUTLOOK

Incoming data continues to confirm that underlying price pressures that have contributed to stronger-than-expected inflation are yet to abate. The invasion of Ukraine has already disrupted the supply of a swathe of hard and soft commodities, with sanctions against Russia likely to exacerbate adverse energy cost implications in the near term as the global economy adjusts to the fast-evolving geo-political developments.

Central Banks that were yet to re-calibrate policy settings in an attempt at reining back inflation are now widely perceived as behind events. Consequently, monetary policy is likely to prioritise the mitigation of potential second order effects of these price spikes rather than ameliorate the detrimental impact these may have on demand and confidence. Such actions will also include faster removal of extraordinary levels of monetary stimulus. Whereas governments may activate plans to extend fiscal support, the likelihood that central banks such as the US Federal Reserve and Bank of England hike interest rates with increased urgency is greater. Potential upward pressure on sovereign debt yields warrants maintaining lower interest rate sensitivity, which has continued to prove beneficial. The unwinding of central bank asset purchases, particularly as the backdrop for economic growth softens does not augur well for risky assets though. As such, caution towards lower-rated and ‘higher-beta’ assets remains justified.

We remain vigilant in seeking out opportunities to add to high quality credits and impact exposure, scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk. 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.

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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