GLOBAL IMPACT BOND FUND

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	ITD*
Fund Performance (B Class)	-10.80%	-9.19%
iBoxx Global Green, Social, Sustainability TR GBP	-7.58%	-12.87%
IA Global Corporate Bond	-5.38%	-9.48%

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

*Inception Date 24th January 2022 to end March 2022

YIELDS

	Jun-22
Distribution	-
Underlying	-

REVIEW

Global bond yields continued to rise across the yield curve, with central banks tightening monetary policy further in a bid to tackle surging consumer prices. The Federal Reserve raised its benchmark interest rate markedly by 0.5% in May and 0.75% in June, thereby strengthening its ability to mitigate inflation as the labour market tightened, with energy prices remaining elevated. The US Treasury 10-year yield began the quarter at 2.38% rising to a high of 3.47% before ending the period at 3.01%.

As headline and core inflation continued to surprise to the upside, the European Central Bank moved to end its asset purchase programme and all but confirmed its desire to shift its main interest rate out of negative territory later this year. Yields trended higher throughout the quarter with peripheral rates underperforming, notably Italian 10-year BTPs ending the period at 3.26% having touched a nine year high of 4.19%.

The Bank of England maintained its gradual pace of 0.25% base interest rate hikes at both its May and June policy meetings; policy makers have guided towards larger increases, if warranted, to meet their objectives.

Credit spreads widened significantly over the quarter, particularly on lower-rated and higher-beta bonds. US dollar credit outperformed relative to European and sterling credit spreads. Risky assets declined as a deteriorating economic outlook driven by price concerns and higher financing costs led sentiment lower. Shorter-dated bonds and higher quality debt outperformed the broader universe of corporate bonds.

PERFORMANCE & ACTIVITY

The Global Impact Bond Fund's total return lagged behind its iBoxx Global Green, Social & Sustainability Bonds benchmark over the period and the IA Global Corporate Bond sector. Whilst the Fund's shorter relative duration proved beneficial earlier in the quarter and its underweight term structure position in longer-maturity debt declined more considerably as yields rose, these factors were offset by widening corporate debt spreads as the period drew to a close. Corporate bonds were particularly weaker in the sub investment-grade credit rating segment.

Risk premia rose, therefore, in sympathy with data suggesting higher probability of a softer economic growth environment. Higher quality debt with shorter maturities fared relatively better, with lower interest rate sensitivity and safe-haven demand contributing positively to total returns there. Whereas the Fund saw adverse impacts on its holdings in the financial sector, these settings favoured its exposures in low-duration government and supra-national debt.

Over the quarter, the Fund added to its holdings in Co-operative Rabobank 1.004% 24/09/2026 Green bonds, Segro Capital 1.875% 23/03/2030 Green bonds, BPCE 2.045% 19/10/2027 Social Bonds and initiated a new position in Orange 2.375% 18/05/2032 Sustainability bonds.

OUTLOOK

With upward consumer price pressures impinging on confidence and demand, economic growth concerns are rapidly materialising. Restrictions on gas supplies from Russia as its invasion of Ukraine continues are also disrupting Europe's energy generation capacity and manufacturing prospects. Geo-political risks remain significantly elevated.

The focus for global central banks is firmly on price stability in the near-term, evidenced by increasingly hawkish monetary policy actions including sharp interest rate hikes. Thus far, the US Federal Reserve appears to have the strongest resolve, with the Bank of England opting for a more gradual tightening path and the European Central Bank yet to implement mooted interest rate actions. Whilst they all acknowledge growth risks, it is imperative to mitigate against adverse consequences of a persistently higher inflation outlook. Policymakers are set to move more decisively to re-anchor price expectations therefore. In the meantime, targeted fiscal support to ease prevailing cost-of-living pressures is arguably warranted. A slower growth environment with rising sovereign debt yields is already affecting credit risk premia, vindicating our caution towards lower-rated and 'higher-beta' assets. As such, we favour higher quality corporate bonds and/or government-backed debt, particularly as central banks embark on the reversal of pandemic emergency asset purchases.

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 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.

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