RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END MARCH 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-1.80%	-2.45%	-2.54%	0.87%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-2.27%	-2.97%	-3.09%	0.27%	-	-
IA £ Corporate Bond	-5.61%	-5.53%	-4.40%	5.24%	-	-
Sector Quartile	1	1	1	4	-	-

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

YIELDS

	Mar-22	Feb-22	Jan-22	Dec-21	Nov-21	Oct-21
Distribution	0.78%	0.77%	0.77%	0.76%	0.76%	1.53%
Underlying	2.37%	0.85%	0.78%	0.76%	0.76%	1.13%

REVIEW

Short-dated gilt yields rose considerably, as global central banks moved to tighten monetary policy in response to stronger-than-expected inflation. 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 FTSE UK Gilts under 5-year opened the period at the low of 0.67% before rising to a high of 1.46% and ending the period at 1.38%.

The US Federal Reserve also embarked on its interest rate hiking cycle, 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. 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. Improving risk sentiment as the quarter drew to a close saw corporate bonds recoup some losses however, leaving credit ahead of gilts particularly at the long end of the curve.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund’s total return of -1.80% was significantly ahead of that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark’s total return (-2.27%) over the period under review. The Fund’s performance benefitted from its shorter relative duration position, as yields rose at the short end of the gilt curve.

The Fund’s added exposure to floating rate notes (FRNs), whose holdings were increased during the period in anticipation of interest rate rises, proved particularly of benefit and boosted relative returns as fixed rate debt prices declined in the face of rising sovereign debt yields and wider credit spreads.

Over the quarter, the Fund initiated holdings in the newly-issued Yorkshire Building Society Jan 2027 Social covered FRN and Severn Trent 6.125% 2024. It also added to holdings in Nationwide Jan 2025 covered FRN, Rabobank 4.875% 2023, Coventry Building Society 1.5% 2023, Kommunalbanken 0.25% 2025, KFW 1.25% 2023, Prudential plc 6.875% 2023, Scentre Group 3.875% 2026, Pension Insurance Corp 6.5% 2024 and A2 Dominion 4.5% 2026. A redemption was funded by sales of Siemens 0.875% 2023, Rabobank 1% 2025, Nationwide 1% 2023, Banque Federative Credit Mutuel 1.5% 2026 and Coventry Building Society 1% 2025.

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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, scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk. 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**