RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-1.74%	-3.52%	-4.47%	-1.70%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-1.82%	-4.05%	-5.12%	-2.21%	-	-
IA £ Corporate Bond	-7.56%	-12.75%	-13.13%	-4.94%	-	-
Sector Quartile	1	1	1	1	-	-

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

YIELDS

	Jun-22
Distribution	1.05%
Underlying	1.05%
Historic	0.73%

REVIEW

Short-dated gilt yields continued to rise, with central banks tightening monetary policy further in a bid to tackle surging consumer prices. Whilst 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. A weakening economic outlook had some market participants begin to discount a near-term recession. The FTSE UK Gilts under 5-year yield began the period at 1.38% and fell to 1.27% before rising to 2.32% and ending the quarter at 1.90%.

In the US, 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 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.

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

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of -1.74% was ahead of that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark's total return (-1.82%) 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 added exposure to quasi-government debt along with its holdings in floating rate notes (FRNs), whose larger allocation was maintained during the period in anticipation of further interest rate rises. Both proved beneficial as lower quality debt underperformed in the face of rising sovereign debt yields and wider credit spreads.

Over the quarter, significant cash inflows were used to establish new holdings in Unite 3.374% 2023, Anglian Water 4.5% 2026, Severn Trent 6.125% 2024, Land Secs 2.375% 2027, HSBC 1.75% 2027, KFW 5.5% 2025, Compass Group 3.85% 2026, Motability 4.5% 2027, Leeds Building Society 1.375% 2027, Realty Income 1.875% 2027, Vicinity 3.375% 2026, EIB 3.75% 2027, Lloyds Bank 4.875% 2027 covered bond, Bazalgette Finance 2.375% 2027 green bond and World Bank 0.875% 2024 sustainable bond. The Fund also added to existing positions in Kommunalbanken 1% 2024, Lloyds Bank 7.5% 2024, London & Quadrant 2.625% 2026, Anglian Water 1.625% 2025 green bond, Nationwide Jan 2025 covered FRN, Bank of Nova Scotia Jan 2025 covered FRN, Yorkshire BS Nov 2024 covered FRN and IFC 1.25% 2023 green bond.

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. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

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**

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass. Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested.
Past performance is not necessarily a guide to future returns.

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Benefact House, 2000, Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, United Kingdom.

EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association.
Firm Reference Number 527473.

© EdenTree 2022