RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END MARCH 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.64%	0.13%	3.58%	4.90%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-0.68%	-0.08%	2.94%	5.48%	-	-
IA £ Corporate Bond	-3.19%	0.03%	9.21%	13.34%	-	-
Sector Quartile	1	2	4	4	-	-

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

YIELDS

	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20
Distribution	0.96%	1.06%	1.10%	1.17%	1.21%	1.17%
Underlying	0.96%	1.06%	1.10%	1.17%	1.21%	1.17%

REVIEW

Short-Dated gilt yields rose over the quarter on the back of concerns about the impact of large-scale US fiscal stimulus and higher inflation, notably in February. Whilst the Bank of England highlighted preparations for a negative interest rate were underway, the policymakers' decision to maintain its base rate at 0.1% was unanimous. Longer maturities bore the brunt of the bond market selloff. The FTSE UK Gilts under 5-year yield opened at the low of -0.06% and rose to a high of 0.22% before ending the period at 0.20%.

The US Federal Reserve, like the Bank of England, was reluctant to respond to bond market volatility, justifying it as a consequence of improving growth prospects. The European Central Bank moved to accelerate the pace of its emergency asset purchases in March however, noting the steeper yield curve as an 'unwarranted' tightening of financial conditions.

Credit spreads were marginally lower over the period with higher-beta segments continuing to outperform in tandem with the rally risky assets. The significant rise in underlying gilt yields was the dominant factor however, despite credit benefitting from declining risk premia as the economic outlook improved. Corporate bonds were therefore ahead of gilts over the quarter, albeit whilst having declined as well.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of -0.64% was just ahead of its iBoxx Non-Gilts 1-5 years ex BBB benchmark's total return (-0.68%) over the period under review. The fund's outperformance was aided by its credit selection in financials, with its holdings in 'higher-beta' credits having fared better as credit spreads narrowed.

The Fund's shorter duration contributed positively to relative performance vs. the wider sector as yields rose rapidly during the quarter. It also continues to benefit from improved risk sentiment as business activity is reopened, favouring corporates rather than gilts or supra-national debt.

Significant cash inflows were utilised by establishing new holdings in ING Groep 3% 2026, KFW 0.87% 2026 Green bond, Municipality Finance 0.375% 2025, London & Quadrant Housing 2.625% 2026, Bank of Nova Scotia 1.375% 2023, Royal Bank of Canada 1.375% 2024 and Siemens 2.75% 2025. The Fund also added to existing holdings in Scentre Group 3.875% 2026, A2 Dominion 4.5% 2026, Northern Powergrid 7.25% 2022, Munich Re 6.625% 2042 (2022 call), Transport for London 2.125% Green bond, Anglian Water 1.625% Green bond, Pension Insurance Corp 6.5% 2024, Rabobank 1.25% 2025, International Finance Corp 0.25% 2025, United Utilities 2% 2025 and Landesbank Baden Wurttemburg 1.125% 2025 Green bond.

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OUTLOOK

The success of ongoing COVID19 vaccination programmes, or lack thereof, remains a key determinant of near-term growth prospects and market risk sentiment. In the interim, surging infection rates have led some governments to reinstate tough health-related restrictions, notably in Europe. The adverse consequences of such curbs to activity, despite the business communities' ability to adapt to the highly uncertain environment, are bound to strengthen the case for further fiscal support.

For the United States, a large scale infrastructure spending plan funded by taxes on larger corporations is now being debated. The threat of higher inflation, notably beyond base effects brought about by year-on-year changes, could exert further upward pressure on yield curves. A bifurcation in the monetary policy stances of the major central banks has emerged, following the ECB's decision to enhance the pace of its emergency asset purchases to counteract higher longer-dated yields. The backdrop of improving economic growth nevertheless, as COVID-related controls are unwound remains favourable for risky assets. In particular, we view cyclicals and 'higher-beta' credits as poised to benefit as investors press ahead with a search for yield.

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 in a low-yielding environment that owes itself largely to central bank intervention. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

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