RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END JUNE 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	025%	-0.39%	1.20%	4.80%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	0.29%	-0.39%	0.72%	5.27%	-	-
IA £ Corporate Bond	1.73%	-1.51%	3.49%	15.51%	-	-
Sector Quartile	4	1	4	4	-	-

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

YIELDS

	Jun-21	May-21	Apr-20	Mar-21	Feb-21	Jan-21
Distribution	0.72%	0.65%	0.84%	0.96%	1.06%	1.10%
Underlying	0.72%	0.65%	0.84%	0.96%	1.06%	1.10%

REVIEW

Short-Dated gilt yields were little changed as concerns around the ongoing COVID19 pandemic resurfaced. Global central bankers moved to ease concerns about inflation by highlighting drivers of price increases as ‘transitory’. An improving outlook was registered however, with progress on vaccination programmes allowing for the resumption of business activity, a pickup in employment and further economic growth. The FTSE UK Gilts under 5-year yield opened at 0.20% and fell to a low of 0.13% in May before rising to a high of 0.24% in June, ending the period at 0.19%.

Whereas the US Federal Reserve has since signalled a more hawkish interest rate outlook, policymakers are yet to see “substantial progress” required to implement tighter monetary policy including a tapering of asset purchases. The Bank of England has also maintained its ultra-loose policy stance, with the European Central Bank keeping its accelerated pace of emergency asset purchases in place as well.

Credit spreads tightened marginally with the investors’ search for yield seeing higher-beta credits continue to outperform as risky assets strengthened further. Duration continued to be the main driver behind overall corporate bond returns therefore, with longer-dated tenors outperforming as yields fell. Corporate bonds were broadly in-line with gilts over the quarter.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund’s total return of 0.25% was just behind that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark’s total return (0.29%) over the period under review. Credit selection in financials contributed positively to fund performance, as a subdued outlook for near-term interest rates continued to anchor yields in shorter maturity gilts.

The Fund’s shorter duration held back relative performance vs. the wider sector as yields declined more in longer tenors. Improved sentiment on the resumption of business activity and better-than-estimated economic growth continued to boost risky assets such as corporates rather than gilts.

Large cash inflows were utilised by establishing new holdings in Yorkshire Water 1.75% 2026 sustainable bond, Motability 3.75% 2026, Close Brothers 2.75% 2026, Banco Santander 1.5% 2026, Banque Federative CM 1.25% 2025, Kommunalbanken 1% 2024, Phoenix Group 6.625% 2025, Skipton Building Society 2024 covered FRN, ABN Amro 1.375% 2025, Coventry Building Society 2025 covered FRN and the newly issued Bank of Nova Scotia 2026 covered FRN. The Fund also added to existing holdings in Municipality Finance 0.375% 2025, Siemens 2.75% 2025, Skipton Building Society 1.75% 2022, Rabobank 4.875% 2023, Northern Powergrid 2.5% 2025, Places for People 4.25% 2023, Places for People 2.875% 2026, KFW 0.875% 2026 green bond and Landesbank Baden Wurttemberg 1.5% 2025 green bond.

edentree
investment management

OUTLOOK

As global economic growth continues to accrue benefits derived from the resumption of business activities previously hindered by health restrictions, rising infection rates may yet keep the pace of such progress in check. Vaccination programmes around the developed world have advanced, with the focus shifting to efficacy rates against the emerging COVID19 variants.

Guidance that the present drivers of higher prices are transitory in nature has central banks reluctant to pare back monetary stimulus, even whilst they acknowledge that the risks to growth and inflation are tilted to the upside. Thus far, the US Federal Reserve has even brought forward expectations on the timing of interest rate hikes but is yet to fully contemplate the curtailment of ongoing asset purchases. The Bank of England may even have to alter policy sooner should higher average wage costs persist in the face of strengthening employment. In a fast rebounding global economy still experiencing supply chain constraints and labour shortages, inflation risks are arguably still under-priced. Based on the robust economic backdrop, risky assets such as cyclicals and 'higher-beta' credits remain favoured.

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.