RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END DECEMBER 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.66%	-1.00%	-1.38%	3.80%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-0.71%	-1.12%	-1.51%	3.80%	-	-
IA £ Corporate Bond	0.08%	-0.44%	-1.94%	15.84%	-	-
Sector Quartile	2	2	1	4	-	-

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

YIELDS

	Dec-21	Nov-21	Oct-21	Sep-21	Aug-21	Jul-21
Distribution	0.76%	0.76%	1.53%	1.53%	1.53%	0.77%
Underlying	0.76%	0.76%	1.13%	1.13%	1.13%	0.77%

REVIEW

Short-dated gilt yields rose, particularly as the probabilities for tighter monetary policy over the near term were re-appraised after stronger-than-expected inflation data during the period. After having shunned the opportunity in November, the Bank of England enacted a surprise 0.15% interest rate hike at the December policy meeting on concerns about rising prices. The FTSE UK Gilts under 5-year opened the period at 0.45% and fell to a low of 0.38% before rising to close the period at 0.67%.

Whilst the US Federal Reserve appeared reluctant to alter monetary settings earlier in the quarter, policymakers eventually revised guidance by stating that a potential increase could occur prior to the curtailment of its asset purchase programme. In a further hawkish shift, it also brought forward the anticipated timing of projected interest rate hikes, with inflation proving less transitory than originally anticipated.

Credit spreads rose over the period, notably in November, as risky assets sold off in response to the emergence of the latest COVID19 variant. Taken together with rising underlying gilt yields, rising risk premia meant that corporate bonds lagged behind sovereign debt over the period. Interest rate sensitivity however, had the more dominant effect compared to credit quality over the quarter as a whole.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of -0.66% was marginally ahead of that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark's total return (-0.71%) over the period under review. The Fund's shorter relative duration position, as yields rose at the short end of the gilt curve proved beneficial. Its exposures to floating rate debt fared better than fixed maturity securities on the outlook for higher interest rates.

Despite a longer duration of its holdings in supra-national debt, the portfolio's overall shorter duration more than offset the adverse impact of rising credit spreads.

Robust cash inflows were used to establish a new holding in Nationwide Jan 2024 covered floating rate note (FRN). The Fund also added to existing holdings in Yorkshire Building Society November 2024 covered FRN, Bank of Nova Scotia March 2025 covered FRN, Royal Bank of Canada October 2024 covered FRN, Coventry Building Society Jan 2025 covered FRN, London & Quadrant 2.625% 2026, Yorkshire Building Society 3.5% 2026, Land Securities 1.974% 2024, Scentre Group 3.875% 2026, Compass Group 2% 2025, Segro plc 6.75% 2024, Fidelity 7.125% 2024, Kommunalbanken 1% 2024, Lloyds Bank 7.5% 2024, Motability 3.75% 2026, and Landesbank Baden Wurttemberg 1.5% 2025 Green bond. A redemption was funded by sales of National Grid 1.375% 2026, Santander 5.75% 2026 and Nationwide 5.625% 2026.

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OUTLOOK

Persistent inflation, a phenomenon that global central banks had largely categorised as 'transitory', is likely to prevail over the near term. The sharp re-calibration of monetary policy to reflect this reality is already underway, evidenced by surprise interest hikes as the year drew to a close and the hawkish shift in policy guidance since. The latest COVID19 variant, whilst more infectious, is proving less disruptive to business activity than originally anticipated.

With the commencement of policy normalisation somewhat overdue, the scope for more aggressive monetary policy tightening to compensate for the previously sanguine stance on inflation is high. Both the US Federal Reserve and the Bank of England appear on course to hike benchmark interest rates over the next quarter, with the European Central Bank relying more on balance sheet adjustments for now. In an environment where asset purchases are declining in tandem with rising benchmark rates, the backdrop for sovereign debt is understandably softer. Caution towards lower-rated and 'higher-beta' assets also remains warranted as market participants re-appraise the growth outlook as well as risk premia based on forthcoming policymaker actions.

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**

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