RESPONSIBLE AND SUSTAINABLE STERLING 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)	-4.35%	-4.65%	-3.59%	7.10%	14.90%	53.51%
R&S Sterling Bond Benchmark	-6.19%	-5.87%	-5.20%	2.21%	6.49%	36.96%
IA £ Strategic Bond	-4.30%	-4.45%	-2.39%	7.98%	12.69%	45.47%
Sector Quartile	3	3	3	3	2	2

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	3.39%	3.38%	3.30%	3.01%	3.16%	3.20%
Underlying	3.40%	2.82%	2.70%	2.54%	2.61%	2.65%

REVIEW

Over the quarter, 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. Longer-dated maturities were significantly weaker, as market participants anticipated a faster pace of monetary stimulus removal. The 10-year yield began the period at the low of 0.97% before rising to a high of 1.71% in March, ending the period at 1.61%.

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. Despite improving risk sentiment as the quarter drew to a close, which saw credit recoup some losses, shorter-dated gilts outperformed corporate bonds.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund’s total return was significantly ahead of its iBoxx Sterling Non-Gilts benchmark and virtually in-line with its IA Strategic bond sector over the period. The Fund’s relative performance benefitted considerably from its lower interest rate sensitivity and an underweight term structure position in longer-dated maturities. The latter registered sharper price declines compared to short-dated maturities as central banks initiated interest rate hikes and indicated further policy tightening, with yields rising across the maturity spectrum.

With risk premia rising in tandem with deteriorating sentiment on risky assets, higher quality debt fared better compared to lower-rated and ‘higher-beta’ segments of the credit market. The adverse impact of credit spread widening on corporate bond performance was offset by the Fund’s lower relative duration compared to benchmark however.

Cash inflows were used to initiate a position in the newly-issued Severn Trent 2.625% Feb 2033 sustainable bond. The Sterling Bond Fund also added to existing holdings in Travis Perkins 4.5% 2023, Pension Insurance Corp 8% 2026, Close Brothers plc 1.625% 2030, RSA Insurance Group 7.375% preferred shares, Co-Operative Group 5.125% 2024 sustainable bond and to Alnwick Gardens 5% 2030 via the retained debt sale of its retail charity bond.

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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. We continue to view the Fund’s overall shorter relative duration profile as appropriate, also relying on higher cash levels to enhance overall portfolio liquidity whilst preserving capital.

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**

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