RESPONSIBLE AND SUSTAINABLE STERLING 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)	-7.01%	-11.05%	-11.72%	-2.66%	4.29%	41.99%
Sterling Bond Benchmark	-6.79%	-12.56%	-13.12%	-5.96%	0.55%	23.05%
IA £ Strategic Bond	-6.91%	-10.91%	-10.77%	-1.86%	3.58%	34.16%
Sector Quartile	3	3	3	3	2	2

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

YIELDS

	Jun-22
Distribution	4.30%
Underlying	3.71%
Historic	3.60%

REVIEW

Gilt yields continued to rise across the yield curve, 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. Longer-dated maturities continued to weaken therefore. A weakening economic outlook had some market participants begin to discount a near-term recession. The 10-year yield began the quarter at 1.61% and fell to a low of 1.55% before rising to a high of 2.65% and ending the period at 2.23%.

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 Sterling Bond Fund's total return marginally lagged behind its iBoxx Sterling Non-Gilts benchmark and IA Strategic bond sector over the period. Whilst the Fund's shorter relative duration proved beneficial earlier in the quarter and its underweight term structure position in longer-maturity debt declined more considerably as yields rose, these factors were offset by widening corporate debt spreads as the period drew to a close. Corporate bonds were particularly weaker in the sub investment-grade credit rating segment.

Risk premia rose, therefore, in sympathy with data suggesting higher probability of a softer economic growth environment. Higher quality debt with shorter maturities fared relatively better, with lower interest rate sensitivity and safe-haven demand contributing positively to total returns there. Whereas the Fund saw adverse impacts on its holdings in the financial sector, these settings favoured its exposures in low-duration government and supra-national debt.

Over the quarter, the Fund added to its holdings in PRS Finance 2% 2029, Phoenix Group 5.867% 2029, Bupa 5% 2023, Pension Insurance Corp 8% 2026, Coventry 12.125% PIB and Dolphin Square 4.25% 2026 retail charity bond. It reduced its positions in Next plc 3.625% 2028, Travis Perkins 3.75% 2026, Direct Line 4.75% perp (2027 call), Royal London 4.875% 2049 (2039 call), AXA 5.625% 2054 (2034 call) and also sold Legal & General Group 5.5% 2064 (2044 call).

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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. 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.

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