RESPONSIBLE AND SUSTAINABLE STERLING 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)	-0.31%	-0.75%	-0.31%	15.34%	22.59%	64.97%
Sterling Bond Benchmark	0.34%	-0.64%	-3.09%	12.64%	15.36%	43.47%
IA £ Strategic Bond	-0.16%	0.15%	0.93%	16.95%	20.03%	58.35%
Sector Quartile	2	4	3	3	2	2

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

YIELDS

	Dec-21	Nov-21	Oct-21	Sept-21	Aug-21	Jul-21
Distribution	3.09%	3.16%	3.20%	3.20%	3.20%	3.14%
Underlying	2.54%	2.61%	2.65%	2.65%	2.65%	2.59%

REVIEW

Over the quarter, the Gilt yield curve flattened as market participants re-assessed the policy implications of stronger-than-expected inflation data. 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. Shorter-dated maturities were therefore weaker. The 10-year yield began the period at 1.0% and fell to a low of 0.70% in December before rising to a high of 1.01% and ending the year at 0.97%.

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 considerably over the period, notably in November, as risky assets sold off in response to the emergence of the latest COVID19 variant. This saw lower-rated debt underperform as investor safe-haven demand grew. As a result, corporate bonds lagged behind gilts over the period, with longer-dated maturities also aided by declining sovereign bond yields further out on the curve.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund's total return underperformed its iBoxx Sterling Non-Gilts benchmark and its IA strategic bond fund peer group for the period under review. This was largely due to the Fund's underweight term structure position in longer maturities that gained considerably over the quarter whereas the shorter-duration debt, where it has overweight allocations, declined on expectations of imminent monetary tightening.

Rising risk premia over the quarter, notably on subordinated financial debt holdings also adversely impacted performance. The dominant effect however, was its duration positioning as underlying longer-dated gilt yields fell over the period as a whole despite recouping some of these relative declines as the year drew to a close.

Robust cash inflows were deployed to initiate a position in the newly-issued Charities Aid Foundation 3.5% 2031 retail charity bond as well as to add to existing holdings in Close Brothers 2% 2031 (2026 call), Yorkshire Building Society 1.5% 2029, National Express Group 2.375% 2028, John Lewis plc 6.125% 2025, Close Brothers Finance plc 1.625% 2030, Bupa Finance 5% 2026, Phoenix Group 6.625% 2025, Royal London 6.125% 2043 (2023 call), Legal & General 5.375% 2045 (2025 call) and the Assura 1.625% 2033 sustainable bond.

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. The Fund's lower interest rate sensitivity has continued to prove beneficial. 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. 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**

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass. Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance is not necessarily a guide to future returns.

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Benefact House, 2000, Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, United Kingdom.

EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association. Firm Reference Number 527473.

© EdenTree 2021