Global Impact Bond

Q2 2023 Commentary

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PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund Performance (B Class)	-0.5%	1.2%	-0.1%	-12.4%
Markit iBoxx Global Green, Social and Sustainable GBP Hedged TR	0.1%	2.5%	-2.2%	-14.8%
IA Global Corporate Bond	-0.7%	1.1%	-0.1%	-9.6%
Sector Quartile	1	2	2	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
*Inception Date 24th January 2022

YIELDS

Distribution	3.18
Underlying	2.52

MARKET REVIEW

The US Federal Reserve raised its benchmark interest rate by 0.25% at its May policy meeting but left it unchanged in June. Whilst the concerns around US regional banks appear to have subsided for now, policymakers remain wary of the cumulative effect of policy changes conducted thus far, notably on interest-rate sensitive segments of the economy. The European Central Bank increased its main interest rate by 0.25% at both its meetings in May and June. It was also keen to signal a higher terminal rate will be required to meet its price stability objective, with inflation uncomfortably high.

Global bond yields rose sharply over the period as persistent consumer price inflation affirmed the case for further monetary policy tightening and reduced the probability of a dovish global central bank pivot. This was particularly true for UK Gilts as core domestic inflation pressures remained elevated as compared to other developed economies. The Bank of England raised its base interest rate by 0.25% in May and by a larger-than-expected 0.50% in June to 5%. The US 10-year yield began the quarter at 3.47% and fell to 3.31% before rising to end at the high of 3.84%.

With risk sentiment having rebounded after the resolution to the Credit Suisse debacle and the stabilisation of US Regional bank concerns, credit spreads declined steadily over the quarter notably in financials. This saw bank junior subordinated debt recoup some of its March underperformance, broadly benefitting corporate debt as risky assets rallied. The transmission of significant monetary policy tightening through the financial system may yet have further implications that the market is unaware of though.

Rising underlying global sovereign debt yields were the main driver of overall bond market performance therefore, even whilst economic survey data began to soften. In the benign credit spread environment that registered lower risk premia, corporate debt outperformed government bonds owing to its lower interest rate sensitivity.

PERFORMANCE & ACTIVITY

The Global Impact Bond Fund's total return of -0.5% underperformed its iBoxx Global Green, Social & Sustainability Bond benchmark's 0.1% total return over the period but was ahead of the IA Global Corporate Bond sector. Whilst the Fund's shorter relative duration proved beneficial, this was offset by its overweight allocation to sterling-denominated debt, where sovereign debt yields rose more considerably, and an underweight allocation in European rates that registered considerably smaller price declines. Over the period the Fund added to its position in the UK Treasury 1.5% 2053 green gilt, also establishing new holdings in the 0% 2050 and 2.3% 2033 German green bunds.

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OUTLOOK

Global central bankers remain steadfast in efforts to curb rising prices, with upward inflation surprises in Europe and the UK serving to remind market participants of the challenging path ahead. Whilst a policy pivot in the latter half of the year had been contemplated earlier, a higher for longer interest rate outlook is now expected, particularly given persistent price pressures on core goods and services.

Where some progress in tackling inflation is apparent, along with stronger than expected economic growth and or a more robust labour market, central banks may have scope to assess the cumulative effect of tightening conducted thus far by pausing interest rate hike campaigns. This explains the bifurcation in monetary policy stances of the US Federal Reserve and central banks in Europe. The UK's peculiar position of higher headline inflation and the re-acceleration of core price increases stands out from a global perspective and arguably increases the probability of a harsher economic downturn as the Bank of England enacts further interest rate hikes. In the face of a weaker growth outlook coupled with tighter financing conditions, a focus on higher credit quality remains justified in a market that is yet to reflect higher corporate default potential. We retain a bias towards higher quality corporate bonds which offer attractive risk-adjusted yield, alongside an increasing allocation to government and supra-national debt, notably in longer-dated maturities.

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 have added further interest rate sensitivity with the view that the rate hike cycle is close to completion and are now just above neutral. Having reduced cash, we are also relying on higher credit quality 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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