R&S Short Dated Bond Fund

Q1 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	1.1%	3.8%	-2.4%	-1.4%	-0.2%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	1.4%	5.2%	-3.1%	-3.3%	-0.9%	-
IA £ Corporate Bond	2.2%	8.0%	-9.4	-5.4%	-1.9%	-
Sector Quartile	4	4	1	1	2	-

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

YIELDS

Distribution	2.88%
Underlying	2.88%
Historic	1.25%

MARKET REVIEW

Short-Dated gilt yields were marginally lower with global central banks moderating the pace of monetary policy tightening. An uncertain path lies ahead for interest rates, however. At its February meeting, the Bank of England raised its base interest rate by 0.5%, followed by a smaller 0.25% interest rate hike in March as fragilities around the global banking sector emerged. Increased market volatility thereafter favoured safe-haven assets. The FTSE UK Gilts under 5-year yield began the period at 3.59% and fell to a low of 2.95% in February before rising to 3.87% and ending the quarter at 3.59%.

At both its February and March policy meetings, the US Federal Reserve raised its benchmark interest rate by 0.25%, with policymakers still wary of elevated core price movements that are considerably higher than target levels. Concerns around US regional banks may well see policymakers pare back the magnitude of further hikes. The European Central Bank increased its main interest rate by 0.50% in February and by 0.50% in March, citing concerns around persistent inflation.

After tightening considerably at the start of the year, credit spreads then rose sharply in March on the account of risk aversion stemming from the financial sector. Bank subordinated debt bore the brunt of the sell-off, with Credit Suisse's junior debt written down entirely as part of its Swiss-led rescue package. Outside financials, corporates outperformed sovereign debt.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's return of 1.1% was just behind that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark total return (1.4%) over the period under review. Whilst its shorter relative duration proved beneficial in February and helped offset the impact from January's strong bond market rally, risk aversion from banking sector concerns had adverse performance implications.

Lower-quality bonds, albeit from non-financial companies outperformed higher rated credit. The Fund's allocation to AAA rated sub-sovereign debt therefore rallied by less over the period as a whole, despite contributing positively to relative performance when safe-haven asset demand grew in March, in the aftermath of Credit Suisse's woes and wider fears surrounding the global banking sector. The Fund's exposures to the financial sector were arguably the main drivers of its performance therefore.

Over the quarter, considerable cash flows were used to establish positions in the newly issued Royal Bank of Canada 5% 2028 and ABN Amro 5.125% 2028 green bond. It also bought Met Life 1.625% 2028, Rabobank 5.25% 2027, Export Development Bank of Canada 4% 2026, European Investment Bank 6% 2028, KFW 3.75% 2027, SSE plc 8.375% 2028 and Places for People 3.625% 2028. The Fund also further reduced its floating rate debt exposure by selling Nationwide Jan 2025 FRN and Coventry Building Society Jan 2025 FRN, thereby adding to its interest rate sensitivity.

OUTLOOK

With central banks having moderated the pace of monetary policy tightening, guidance from global policymakers remains for higher rates, particularly as core inflation is uncomfortably higher than expected. Market participants are more dovish however, anticipating a looser stance by the end of the year and thereby making for greater volatility in asset prices.

Whereas the global economy has held up better than indicated by survey data at the turn of the year, recent concerns around the banking sector highlight fragilities in a financial system that has relied heavily on central bank stimulus until recently. A potential rise in defaults as debt is re-financed in tighter financial conditions appears increasingly likely. Also, higher inflation, particularly in the UK, continues to fuel labour market disquiet, which is impinging upon productivity. Whilst there is still scope to add to duration, a cautious stance towards credit has been maintained on the likelihood of a deteriorating economic environment. As such, we retain a bias towards higher quality corporate bonds which offer attractive risk-adjusted yield, alongside a meaningful allocation to supra-national debt. These should mitigate the adverse impact of higher risk premia as the global economy decelerates.

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. Whereas we are adding interest rate sensitivity, we continue to view the Fund's overall shorter relative duration profile as appropriate. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**