

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-1.7%	-0.6%	-2.4%	-5.6%	-2.2%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-2.4%	-1.1%	-3.7%	-8.0%	-3.8%	-
IA £ Corporate Bond	-2.8%	-0.7%	-4.8%	-14.4%	-4.5%	-
Sector Quartile	1	2	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	1.66

MARKET REVIEW

Shorter-dated yields were sharply higher, notably in May, as persistent consumer price inflation affirmed the case for further monetary policy tightening and reduced the probability of a dovish global central bank pivot. 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%, with shorter tenors of the yield curve rising the most in response to these actions. The FTSE UK Gilts under 5-year yield began the period at 3.59% and fell to a low of 3.46% in April before rising to end the quarter at the high of 5.11%.

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 required to meet its price stability objective, with inflation uncomfortably high.

Credit spreads declined steadily over the quarter, with bank junior subordinated debt recouping some of its March underperformance and broader corporate debt benefitting from stable risk sentiment. Rising underlying gilt yields were the main drivers of total returns however, with short-dated sovereign debt outperforming corporate debt once again.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of -1.7% outperformed that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark's total return (-2.4%) over the period under review. This was aided by the Fund's overall shorter interest rate sensitivity, which contributed positively towards performance.

The Fund maintained exposure to quasi-government debt and added to some holdings in floating rate notes (FRNs) as the probability for higher interest rates rose, which proved particularly beneficial in May as sovereign debt yields spiked.

R&S Short Dated Bond Fund

Q2 2023 Commentary



Performance
with principles®

Over the quarter, the Fund initiated holdings in the newly issued Council of Europe 4.25% 2026, the ABN Amro 5.25% 2026 green bond, Skipton 6.25% 2029 (2028 call) and Close Brothers Group 7.75% 2028. It added to positions in ING 3% 2026, Credit Agricole 5.75% 2027, IFFIm 2.75% 2025, European Investment Bank 0.75% 2024 green bond, Pension Insurance Corp 6.5% 2024, Motability 4.375% 2027, Compass Group 3.85% 2026, Anglian Water 4.5% 2027 as well as Anglian Water 1.625% 2025 green bond. During the period, there were also maturities of Bupa Finance 5% 2023, Close Brothers 2.75% 2023, Siemens 0.875% 2023, Scottish Widows 5.5% 2023 and Unite 3.375% 2023.

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 thus far and 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. A cautious stance towards lower-rated and 'higher-beta' assets is crucial, as is a bias towards higher quality debt, particularly with a deteriorating outlook.

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. 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**

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