RESPONSIBLE AND SUSTAINABLE SHORT DATED BOND FUND

COMMENTARY FOR QUARTER TO END SEPTEMBER 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-4.3%	-5.9%	-8.2%	-6.7%	-4.1%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-6.2%	-7.9%	-10.6%	-9.1%	-5.9%	-
IA £ Corporate Bond	-9.3%	-16.1%	-20.8%	-16.3%	-8.7%	-
Sector Quartile	1	1	1	1	1	-

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

YIELDS

	Sep-22
Distribution	1.71%
Underlying	1.71%
Historic	0.78%

REVIEW

Shorter-dated gilt yields continued to rise as central banks delivered increasingly hawkish monetary policy in an attempt to mitigate surging consumer prices. At both its July and September meetings, the Bank of England raised its base interest rate by 0.5% with some policymakers voting for a larger hike in attempt to re-anchor inflation expectations. Concerns around the UK's fiscal outlook also emerged. Such was the knock-on adverse impact in late September that the Bank of England saw targeted gilt market intervention necessary. The FTSE UK Gilts under 5-year yield began the period at 1.90% and fell to 1.61% before rising to 4.56% and ending the quarter at 4.36%.

The US Federal Reserve raised its benchmark interest rate by a combined 1.50% in the third quarter of 2022. It was keen to emphasize the likelihood of further hikes to drive inflation down sustainably towards target, implying a tolerance for weaker growth that would result from aggressive tightening to restore price stability. The European Central Bank enacted larger-than-expected benchmark interest rate increases of 0.50% in July and 0.75% in September.

Credit spreads, despite recording little relative change throughout the quarter, rose in the penultimate week in tandem with risk premia on sterling-denominated assets on the account of heightened fiscal concerns. Rising underlying gilt yields were the principal driver of returns however, with short-dated sovereigns outperforming credit as risky assets weakened.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of -4.3% was significantly ahead of that of its iBoxx Non-Gilts 1-5 years ex BBB benchmark's total return (-6.2%) over the period under review. This was largely as a result of the Fund's shorter relative duration positioning, which contributed positively towards performance.

The Fund's added exposure to quasi-government debt along with its holdings in floating rate notes (FRNs), whose larger allocation was maintained during the period in anticipation of further interest rate rises, both continued to prove beneficial as lower quality debt underperformed in the face of rising sovereign debt yields and rising credit risk premia.

Over the quarter, considerable cash inflows were used to establish new holdings largely in supra-national debt including; IBRD 1% December 2022, Asia Development Bank 1% December 2022, International Development Association 0.75% 2024, London & Quadrant 2.625% February 2028, PRS Finance 1.75% November 2026, Nordic Investment Bank 2.375% 2026, GlaxoSmithKline 3.375% 2027, Inter-American Development Bank 2.5% 2025 and Council of Europe 1.25% 2026. The Fund also bought the newly issued International Finance Facility for Immunisation 2.75% 2025, BPCE Group 1.375% 2026, MetLife 5.375% December 2024 and added to various other holdings on corporate debt and covered floating rate notes from Yorkshire Building Society, Santander UK, Royal Bank of Canada, Bank of Nova Scotia and Coventry Building Society.

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OUTLOOK

Global central banks are decisively hawkish. While their tolerance for slower growth as a price to rein back price expectations grows, risky assets are likely to face a more challenging outlook. Geo-political risks also remain elevated as Russia's invasion of Ukraine further disrupts energy supply to Europe ahead of the winter months.

Despite the speed of the decline in sovereign debt prices warranting intervention by the Bank of England, notably for longer-maturity gilts, global central banks elsewhere are thus far undeterred in their battle against inflation. Emerging signs that such price increases have become embedded, for instance through higher core inflation, will only strengthen their policy tightening resolve. The US Federal Reserve continues to deliver outsized interest rate hikes, with the European Central Bank also guiding towards more restrictive monetary policy as inflation accelerates. Even though targeted fiscal support to ease the prevalent cost-of-living pressures are likely to lend support to consumer demand in the near term, the dampening effects of restrictive financial conditions on the prospects for growth are likely to dominate. A cautious stance towards lower-rated and 'higher-beta' assets is crucial, as is a bias towards higher quality corporate bonds and/or government-backed debt, particularly when central banks embark on quantitative tightening.

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.

To obtain 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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