

EdenTree Sterling Bond Fund

Q2 2025 Commentary



PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	3.1%	4.2%	6.3%	13.1%	6.3%	29.8%
Sterling Bond Benchmark*	2.8%	3.5%	5.3%	7.6%	-4.9%	21.7%
IA £ Strategic Bond	2.3%	3.8%	7.0%	16.2%	10.6%	32.0%
Sector Quartile	2	2	3	3	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested
Data as at 30.06.2025

YIELDS**

Distribution	4.68%
Underlying	4.13%
Historic	4.50%

Data as at 30.06.2025
Source: EdenTree.

MARKET REVIEW

Global yield curves steepened over the quarter, with shorter-dated and intermediate maturity bonds rallying while longer-dated yields rose further as fiscal concerns gained prominence. Although central banks are still expecting to cut interest rates, the decline in upside inflation risk means they are likely to proceed at a more gradual pace. The Bank of England cut its benchmark interest rate by 25 basis points (bps) to 4.25% in May, a close decision given the uncertain backdrop of geopolitical tensions and trade negotiations. The FTSE 10-year UK gilt yield began the period at 4.61% and rose to a high of 4.74% before ending the quarter at 4.48%.

The US Federal Reserve (Fed) held its key interest rate at a target range of 4.25% to 4.5% during the period, as it awaited data on the economic impact of US trade tariffs. The European Central Bank (ECB) cut its main interest rate by 25 basis points (bps) in April and 25 bps in June, as headline inflation fell and corresponding price fears subsided. ECB policymakers remain data-dependant, but a growing number have signalled the rate-cutting cycle may be nearing its end.

Credit spreads tightened over the quarter, recovering from the sharp widening triggered by the 'Liberation Day' tariff announcements. Corporate bonds subsequently rallied, with lower-rated debt outperforming higher-quality credit at the shorter end of the yield curve. Corporate bonds also outperformed government bonds across the yield curve.

PERFORMANCE & ACTIVITY

The EdenTree Sterling Bond Fund outperformed both its iBoxx Sterling Non-Gilts benchmark and the IA Sterling Strategic Bond sector over the quarter. While this was partly due to the Fund's higher interest rate sensitivity, as yields declined across shorter- to intermediate maturity bonds, credit selection was the main contributor to the Fund's performance, with credit spreads retracing most of the widening registered in the previous quarter. This was most apparent in the financial sector, where the Fund is overweight compared to its benchmark.

Among the top contributors to outperformance were the Fund's holdings in preference shares and Permanent Interest Bearing Shares (PIBs). These exposures continued to rally after the redemption of Aviva plc's preference shares, which

EdenTree Sterling Bond Fund

Q2 2025 Commentary



the Fund held, as market participants re-invested tender proceeds. The Fund benefitted from declining risk premiums in its high-beta financial holdings, which we had been selectively adding to. It also benefitted from the better relative performance of its higher-quality corporate debt exposure, which included bonds from the utilities sector. These gains offset weaker returns in the Fund's long-dated gilt holdings.

We initiated holdings in the newly issued Nationwide 7.875% perpetual (2031 call) bond and the Places for People 5.375% 2032 sustainable bond. We also added to existing holdings in the Lloyds 7.5% perpetual (2030 call) bond, Aviva 7.75% perpetual (2032 call) bond, Places for People 6.25% 2041 bond and Pension Insurance Corporation 3.625% 2032 bond.

There was a maturity of the Hightown Housing 4.4% April 2025 retail charity bond. There were redemptions of the Hiscox 6.125% 2045 (2025 call) bond, Aviva 8.375% preference shares, Aviva 8.75% preference shares, General Accident plc 7.875% preference shares and General Accident 8.875% preference shares.

The Fund also reduced its exposure in longer-dated gilts, including UK Treasury 1.125% 2073, UK Treasury 3.75% 2053 and UK Treasury 0.625% 2050. We used the proceeds to switch into the shorter maturity UK Treasury 4.75% 2038 gilt. The Fund also sold its holding in European Investment Bank 5% 2039 to raise cash.

OUTLOOK

With economic growth, employment and headline inflation data not yet reflecting possible disruptions to global trade, the rebound in higher-risk assets suggests a sanguine stance by market participants. This could reflect that worst-case scenarios seem to have been averted. However, elevated levels of uncertainty continue to warrant caution, not least given ongoing geopolitical tensions and conflict in the Middle East.

While the likelihood of further interest rate cuts from major central banks may support the shorter end of yield curves, yields could remain elevated, notably in longer-dated tenors.

Although risk sentiment has recovered, this may be masking the potential for recession, particularly as the reduction in business investment begins to weigh on economic growth. In credit markets, risk premiums have nearly reversed the widening seen earlier this year, as corporates navigate the more volatile re-financing environment, albeit while reducing debt issuance.

Global growth is being downgraded, and it's unclear how trade dynamics will evolve. The relative attractions of high-quality credit remain nonetheless, with shorter-dated tenors poised to benefit more from monetary policy easing and likely to be impacted less by the fiscal challenges steepening sovereign yield curves. The latter phenomenon could well influence issuance patterns from both sovereigns and companies alike. We remain wary of the lower-quality segments of the corporate debt universe such as sub-investment grade debt, which are likely to fare worse in the event of a market sell-off. We also continue to favour shorter- and intermediate maturity tenors as compared to exposures further out on the yield curve due to deteriorating fiscal outlooks.

We, therefore, 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 maintained a longer relative duration, but our term structure is positioned to benefit from potential yield curve steepening and future rate cut prospects. We continue to rely on higher credit quality to enhance overall portfolio liquidity while preserving capital.

EdenTree Sterling Bond Fund

Q2 2025 Commentary



PERFORMANCE DISCRETE ROLLING 12 MONTHS

	12 Months to	12 Months to	12 Months to	12 Months to	12 Months to
	30/06/2021	30/06/2022	30/06/2023	30/06/2024	30/06/2025
Fund (B Class)	6.5%	-11.7%	-4.8%	11.8%	6.3%
Sterling Bond Benchmark*	1.7%	-13.1%	-6.9%	9.7%	5.3%
IA £ Strategic Bond	6.7%	-10.8%	-0.2%	8.8%	7.0%
Sector Quartile	2	3	4	1	3

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

Past performance is not necessarily a guide to future returns.

*As the Fund has greater exposure to corporate bonds over gilts we compare the Fund's performance to the iBoxx Sterling Non-Gilt Overall Total Return Index. However, the portfolio manager is not bound or influenced by the index when making investment decisions.

**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. The Historic Yield reflects distributions declared over the past twelve months as a percentage of the share price.

EdenTree Sterling Bond Fund

Q2 2025 Commentary



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.

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.

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.

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

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.