

EdenTree Sustainable Sterling Bond Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund Performance (B Class)	-2.0%	1.2%	4.9%	17.4%	3.2%	31.6%
Sustainable Sterling Bond Benchmark*	-1.6%	0.9%	4.4%	13.5%	-3.4%	15.7%
IA £ Strategic Bond	-0.8%	0.7%	4.9%	18.3%	8.3%	34.5%
Sector Quartile	4	2	3	2	4	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 31.03.2026

Yields**

Distribution	4.9%
Underlying	4.4%
Historic	5.1%

Source: EdenTree. Data as at 31.03.2026

Market review

The onset of conflict in the Middle East triggered a sharp sell-off in bond markets in March, as surging energy prices lifted inflation expectations and effectively extinguished hopes of near-term interest rate cuts. The UK 10-year gilt yield started the period at 4.48% and fell to a low of 4.23% in February before rising to a high of 4.99% in March and closing the period at around 4.92%. The Bank of England voted unanimously to hold its benchmark interest rate at 3.75% in March.

The US Federal Reserve (Fed) also held its benchmark interest rate as expected at the target range of 3.50%-3.75% while highlighting that upside risks to consumer price inflation remained elevated due to heightened geopolitical risks and tariff impacts. This reinforced a more hawkish market tone, with investor expectations shifting towards fewer interest rate cuts. The European Central Bank also left its benchmark rate unchanged at 2.00% as expected, noting that higher energy costs were likely to weigh on both inflation and economic growth.

Credit spreads widened modestly over the quarter from historically low levels, reflecting the broader decline in risk assets. While investor concerns increased around valuations in software-related lending, liquidity pressures have so far been more evident in private credit than public debt.

The significant fall in underlying sovereign bond prices was the main driver of the market's underperformance in the period. Shorter-dated bonds outperformed due to their lower interest rate sensitivity, despite yields rising more sharply at the short end of yield curves than for longer-dated maturities.

Performance and activity

The EdenTree Sustainable Sterling Bond Fund underperformed its iBoxx Non-Gilts benchmark and the IA Strategic Bond sector over the quarter, with the Fund's higher interest rate sensitivity adversely impacting its performance as yields rose.

The Fund's security selection, particularly within longer-maturity gilts, was the main detractor from its performance. Gilts experienced considerable volatility due to the sharp rise in global government bond yields and increasingly hawkish interest rate expectations driven by war-related news flow.

While credit spreads widened marginally over the quarter, risk premia in corporate debt remained close to historic tights. As such, the rates component of the Fund's portfolio was the principal driver of its underperformance, which more than offset the positive contributions from its overweight allocation to the insurance subsector of financials.

Over the period, the Fund initiated positions in the newly issued Greensleeves 5.5% 2029 Retail Charity bond, Paragon 7.5% perpetual (2033 call) bond and began a holding in Investec 5.625% 2036 (2031 call). The Fund also bought some Anglian Water 4.5% 2027 following the sharp rise in yields in shorter-dated maturities.

To raise cash and reduce gilt exposure, the Fund sold its UK Treasury 1.5% 2053 green gilt, UK Treasury 4.5% 2042, UK Treasury 4.25% 2049, UK Treasury 1.125% 2073, UK Treasury 0.625% 2050 and UK Treasury 3.75% 2053. It also sold some Legal & General 5.125% 2048 (2028 call), Bazalgette Finance 2.375% 2027, M&G plc 6.25% 2068 (2048 call), Motability Group plc 5.75% 2051 and Standard Chartered plc 5.125% 2034.

Outlook

The outbreak of war in the Middle East has materially increased the risk of stagflation, with higher consumer price inflation driven by rising energy costs occurring alongside weaker economic growth. This dynamic is particularly apparent in the UK and Europe, which are net energy importers. A prolonged conflict and more persistent energy price shocks would further disrupt global supply chains, with potential production shutdowns materially weighing on economic activity.

The resulting upside risks to inflation limit central banks' ability to ease monetary policy, unless they are willing to look through such price pressures. In response, global yield curves have bear-flattened, with shorter-dated yields rising more sharply than longer maturities. Yields remain sensitive not only to energy price movements but also to labour market developments. Should policymakers face rising unemployment, there may still be scope for delayed interest rate cuts, assuming the inflationary impact is moderate. As a result, the case for higher interest rate sensitivity has weakened, even if the conflict were to be resolved swiftly.

Credit spreads have remained close to historic tights. While valuation concerns have emerged around software-related loans within parts of the private credit market, resulting in liquidity challenges for some retail investors, public credit markets have yet to reflect these stresses. Higher sovereign yields at shorter maturities continue to present value, with recently issued corporate bonds at these tenors remaining attractive due to higher all-in yields.

With market participants' focus having shifted to geopolitical developments in the Gulf region, less attention is being paid to fiscal dynamics such as budget deficits. Governments' abilities to tackle elevated fiscal spending at a time when economic growth may be constrained by exogenous factors is likely to keep longer-dated sovereign yields high. As such, we are increasing allocations to shorter and intermediate tenors, with a continued focus on higher-quality corporate debt at this stage of the credit cycle.

We remain vigilant in seeking out opportunities to add to high-quality credits and carry, scrutinising the robustness of business models and cash flows to ensure adequate compensation for emerging growth and cost inflation risks. In addition, we have reduced our longer relative duration bias to a more neutral stance given the reduced near-term prospects for central bank interest rate cuts. We maintain a reliance on higher credit quality to enhance overall portfolio liquidity while preserving capital.

Performance	Discrete	Rolling 12 months	12 months to 31/03/2022	12 months to 31/03/2023	12 months to 31/03/2024	12 months to 31/03/2025	12 months to 31/03/2026
Fund Performance (B Class)			-3.6%	-8.9%	8.2%	3.5%	4.9%
Sustainable Sterling Bond Benchmark*			-5.2%	-10.2%	6.1%	2.4%	4.4%
IA £ Strategic Bond			-2.4%	-6.2%	7.3%	5.2%	4.9%
Sector Quartile			3	4	2	3	3

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

*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 Annual Management Charge is 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.

Past performance is not necessarily a guide to future returns.

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