Q2 2026 Commentary

EdenTree Global Sustainable Government Bond Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund Performance (B Class)	1.6%	1.1%	2.3%	-	-	-
Bloomberg Gbl Agg Treasuries TR Hdg GBP*	1.1%	0.8%	1.9%	-	-	-
IA Global Government Bond	0.9%	0.8%	2.9%	-	-	-
Sector Quartile	2	1	2	-	-	-

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 30.06.2026

Yields**	
Distribution	3.0%
Underlying	3.0%
Historic	3.1%

Source: EdenTree. Data as at 30.06.2026

Market review

Global bond markets rebounded during the second quarter, driven by an uneasy truce in the Middle East, as peace negotiations between the US and Iran got underway. Energy prices declined from their recent peaks, leading market participants to pare back their inflation expectations and price in fewer near-term interest rate rises. With little evidence so far that higher energy prices are feeding through into broader inflation, policymakers appear less inclined to tighten policy amid weakening consumer confidence.

Both the Reserve Bank of Australia and the Bank of Japan raised their benchmark interest rates by 25 basis points (bps) to 4.35% and 1.00%, respectively. The former central bank's main rate is now as high as it had been prior to the series of rate cuts enacted in 2025. In the US, the Federal Reserve (Fed) continued to maintain its target range at 3.50%-3.75%, acknowledging that risks to headline inflation had increased. The Bank of England (BoE) held its base rate at 3.75% during the period. The Bank of Canada also held its interest rate at 2.25% over the quarter.

The decline in yields across most major sovereign bond markets was more pronounced at the shorter end of the curve, as expectations for further interest rate hikes faded. Yield curves generally flattened over the quarter, although Japan was a notable exception, with longer-dated government bond yields continuing to rise amid concerns over fiscal expansion. Despite this, sovereign bond yields remained above pre-conflict levels, reflecting a degree of caution over the durability of the ceasefire and the inflationary implications of ongoing geopolitical uncertainty.

The European Central Bank (ECB) raised its benchmark interest rate by 25 bps to 2.25%, as it sought to stabilise inflation at its 2% target following disruption caused by war in the Middle East. The ECB also revised its growth and inflation forecasts higher for both 2026 and 2027.

Performance and activity

The EdenTree Global Sustainable Government Bond Fund outperformed both its Bloomberg Global Aggregate Treasuries Index and the IA Global Government Bond sector over the period. The Fund's overweight allocations to sterling, euro and Canadian dollar denominated sovereign debt proved beneficial, as these markets rallied to price in fewer interest rate hikes after the geopolitical tensions eased in the latter half of the quarter. Japanese government bonds continued to decline, notably in longer-maturity tenors with further yield curve steepening registered. The Fund's shorter relative duration position in Japanese yen denominated debt also contributed positively to performance.

Cash subscriptions over the quarter were deployed by adding to existing positions in the newly issued UK Treasury 4.625% green gilt and the Canada 3% 2032 green government bond. This marginally increased the Fund's allocation to the UK and Canada while further reducing the Fund's weighting in European sovereign debt. Other purchases conducted included the Australia 4.25% 2034 green bond, UK Treasury 3.5% 2068, Japan Government 0.7% 2033 Transition bond, Japan Government 0.5% 2029 Transition bond, US Treasury 4.125% 2053, US Treasury 4.375% 2043, France 3% 2049 green OAT and the Italy 4.05% 2037 green BTP, which was funded by the sale of the OBL 1.3% 2027 green Bond.

The Fund added back some interest rate sensitivity in May, despite remaining shorter relative to its benchmark, by adding to its UK Treasury 0.875% 2033 green gilt and the longer-dated UK Treasury 1.5% 2053 green gilt at attractive yields.

Outlook

The interaction between geopolitics, energy prices and central bank policy remains a key driver of global bond markets. While tensions in the Middle East have eased from their peak, the risk of renewed disruption continues to influence inflation expectations and bond yields. For energy importers such as the UK and Europe, the inflationary shock from higher energy prices is also a drag on real household incomes and demand, creating a softer growth backdrop for policymakers to navigate.

This inflation environment is nonetheless more nuanced than in the immediate post-pandemic period. Although supply-side constraints, caused by the conflict, could result in continued upward pressure on prices, weaker consumer confidence and reduced purchasing power are exerting a disinflationary influence, rather than the demand-led inflation registered in 2022. As a result, central banks are likely to remain cautious, with the case for further rate rises becoming less compelling.

Policy paths are also becoming increasingly differentiated. The ECB has begun to raise interest rates from a neutral starting point and may tighten further if inflation pressures persist. In contrast, the Fed's policy settings are still restrictive, supported by the US' relative energy independence, resilient growth and stronger corporate earnings. The BoE is likely to tread carefully, balancing elevated price pressures against a weaker domestic growth outlook. However, should growth or labour markets weaken, central banks are likely to hold policy rates steady rather than risk reigniting inflation through additional monetary stimulus.

The Fund has maintained a shorter relative duration stance, particularly in Europe, where we have also been reducing our overweight exposure. Elsewhere, notably in Japan and the UK, concerns around fiscal expansion continue to drive higher term premia, supporting a lower overall level of interest rate sensitivity, notwithstanding the more attractive yield opportunities now available in intermediate maturities.

Performance Discrete Rolling 12 months	12 months to 30/06/2022	12 months to 30/06/2023	12 months to 30/06/2024	12 months to 30/06/2025	12 months to 30/06/2026
Fund Performance (B Class)	-	-	-	-	2.3%
Bloomberg Gbl Agg Treasuries TR Hdg GBP*	-	-	-	-	1.9%
IA Global Government Bond	-	-	-	-	2.9%
Sector Quartile	-	-	-	-	2

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

* We compare the Fund's performance to the Bloomberg Global Aggregate Treasuries Total Return Index Hedged GBP 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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