Q2 2026 Commentary

EdenTree Sustainable Short Dated Bond Fund

Performance	3 months	6 months	1 year	3 years	5 years
Fund Performance (B Class)	2.0%	1.2%	3.7%	17.9%	10.0%
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	1.9%	1.2%	3.8%	19.1%	8.8%
IA £ Corporate Bond	2.8%	1.2%	4.5%	22.2%	1.0%
Sector Quartile	4	2	4	4	1

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

Yields**	
Distribution	4.5%
Underlying	4.2%
Historic	4.0%

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.

The FTSE UK Gilts under 5-year yield began the period at 4.35% and fell to a low of 4.08% in April, before rising to a high of 4.52% in May and ending the period at 4.16%. The Bank of England (BoE) voted to hold its benchmark interest rate at 3.75% in June, although two policymakers voted for an increase of 25 basis points (bps).

The US Federal Reserve (Fed) continued to hold its benchmark interest rate at a target range of 3.50%-3.75%. The Fed's new Chair Kevin Warsh re-emphasised the central bank's commitment to price stability, leading markets to view the Fed's policy outlook as more hawkish than previously expected. A recent uptick in US headline inflation has led to forecasts of a hike by the end of the year. 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.

Credit spreads tightened over the quarter, returning to levels seen before the US-Iran war. Despite the uncertainty, improving risk sentiment and resilient economic growth supported corporate earnings, while attractive all-in yields continued to underpin demand for the asset class.

Both falling government bond yields and tighter credit spreads contributed positively to performance over the quarter. Although shorter-dated bond yields declined more, the greater interest rate sensitivity of longer-maturity debt saw them rally more significantly. Lower-quality debt also outperformed as risk appetite improved. Corporate bonds ended the quarter ahead of sovereign debt.

Performance and activity

The EdenTree Sustainable Short Dated Bond Fund marginally outperformed its iBoxx Non-Gilts 1-5 years excluding BBB benchmark over the period, although it lagged the IA Sterling Corporate Bond sector. The Fund's performance was driven primarily by its interest-rate positioning, with credit selection in shorter-dated bonds proving beneficial as Middle East tensions eased and expectations for further interest rate rises receded.

Credit spreads tightened over the quarter to historically tight levels. Lower-rated credit benefitted most from narrowing risk premia and improving investor sentiment, boosting the Fund's relative returns. However, falling gilt yields were the main driver of returns across corporate bond markets, reflecting a broadly supportive environment for credit.

During the period, the Fund initiated a position in the newly issued DNB Nor Bank 5% (2031 call) green bond. It also added to existing holdings in Inter-American Development Bank 4% 2031, HSBC plc 5.29% 2032, London Metric 4.875% 2032 green bond, Places for People 5.875% 2031, Zurich 5.125% 2052 (2032 call), Santander 5.5% 2029, Schroders 6.346% 2034 (2029 call) and London Metric 4.5% 2029 green bond.

To fund these purchases, which added back interest rate sensitivity, the Fund switched from some of its shorter-dated securities, selling Inter-American Development Bank 2.5% 2027, HSBC plc 1.75% 2027, BNG Bank 0.5% 2036 and Motability Operations plc 4.375% 2027.

There were also maturities of European Investment Bank 0.875% 2026, ABN Amro 5.25% 2026, Bank of Nova Scotia June 2026 Floating Rate Note (FRN) and Vicinity Centres Trust 3.375% 2026 over the quarter.

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.

Credit markets have so far remained resilient, supported by robust growth. Credit spreads reached historic tights during the quarter, and there is limited evidence of stress in public corporate bond markets. While some valuation concerns have emerged in areas of private credit, particularly around software-related lending, the broader refinancing environment appears healthy.

We continue to favour a disciplined and selective approach, seeking out opportunities to add to high-quality credits, and scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk. We have also strategically increased our exposure to floating-rate instruments as a defensive ballast. We retain a duration stance closer to neutral nonetheless, by seizing opportunities to lock in attractive higher yields, particularly in newly issued corporate debt that offers better risk premia.

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)	-4.5%	-2.4%	7.8%	5.5%	3.7%
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	-5.1%	-3.7%	8.2%	6.0%	3.8%
IA £ Corporate Bond	-13.1%	-4.8%	10.5%	5.7%	4.5%
Sector Quartile	1	1	4	3	4

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

*As the Fund has greater exposure to short dated corporate bonds over gilts, we compare the Fund's performance to the iBoxx Non-Gilts 1-5 years ex BBB Benchmark. 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 the 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 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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