# EdenTree Sterling Bond Fund

## Q1 2025 Commentary

### PERFORMANCE

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|
| Fund (B Class) | 1.1% | 0.3% | 3.5% | 2.0% | 10.4% | 23.7% |
| Sterling Bond Benchmark* | 0.7% | 0.2% | 2.4% | -2.4% | -1.1% | 14.4% |
| IA £ Strategic Bond | 1.5% | 1.0% | 5.2% | 5.8% | 16.8% | 26.4% |
| Sector Quartile | 3 | 3 | 3 | 3 | 3 | 3 |

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested
Data as at 31.03.2025

### YIELDS**

| | |
|---|---|
| Distribution | *4.79%* |
| Underlying | *4.24%* |
| Historic | *4.45%* |

Data as at 31.03.2025
Source: EdenTree.

### MARKET REVIEW

Global yield curves steepened over the quarter; shorter-dated yields fell, as market participants anticipated interest rate cuts, and longer-dated yields rose, due to fiscal concerns. Central banks grew reluctant to commit to further monetary policy easing in the near term due to increasing uncertainty and ongoing geopolitical tensions. The Bank of England cut its benchmark interest rate by 25 basis points (bps) to 4.5% in February but then held rates at its March meeting, citing inflationary pressure and economic uncertainty as reasons for caution. The FTSE 10-year UK gilt yield began the period at 4.57% and rose to a high of 4.89% before falling to 4.44% in February and ending the quarter at 4.68%.

The US Federal Reserve maintained its benchmark interest rate at 4.5%, signalling a gradual approach to policy easing. The European Central Bank cut its main interest rate by 25 bps in January and 25 bps in March, acknowledging the progress of inflation towards its 2% target despite some downward revision to growth estimates. However, a data-dependent approach to upcoming monetary policy decisions was highlighted, particularly in the aftermath of the significant increases in fiscal expenditures that have been announced to fund defence spending programmes across Europe.

Credit risk premia widened over the quarter. Risk sentiment took a turn for the worse on fears about economic growth in the face of growing global trade disruptions. This favoured higher-quality credit at shorter-dated tenors, particularly in March as the period ended. Corporate bonds were in-line with sovereign debt in shorter maturities, with longer-dated credit underperforming government bonds further out on the yield curve.

### PERFORMANCE & ACTIVITY

The EdenTree Sterling Bond Fund outperformed its iBoxx Sterling Non-Gilts benchmark over the quarter. However, it underperformed the IA Strategic Bond sector. The Fund's higher interest rate sensitivity proved beneficial to its performance as gilt yields fell in the early part of the period. There was also a positive contribution from credit selection, notably in the financial and consumer discretionary sectors.

Sovereign debt yields continued to drive performance for the period under review. The fund's preference share holdings rallied significantly on the announcement of Aviva plc's intention to redeem its securities at premia to where they had been trading. As the gilt yield curve steepened following Europe's large fiscal spending announcement in March, the Fund's longer-dated holdings fell as did its high-beta financial sector exposures when credit spreads began to widen. The Fund's strategy of enhancing its credit quality through higher-quality corporate debt nonetheless aided performance over the quarter.

We initiated holdings in the newly issued J Sainsbury 5.625% 2035, Lloyds 7.5% perpetual (2030 call), Aviva 7.75% perpetual (2032 call) and Legal & General 6.625% 2055 (2035 call). We also added to our exposures in United Utilities 5.25% 2046, Motability 6.25% 2045 and Places for People 6.25% 2041.

To fund redemptions, we reduced our holdings in M&G 5.625% 2051, Pension Insurance Corporation 5.625% 2030 and Phoenix 5.625%. At the start of the period, the Fund also sold KPN 5.75% 2039, Tesco 2.75% 2030, Next plc 4.375% 2026, Yorkshire Building Society 13.5% 2025, Legal & General 5.375% 2045 and Royal London 6.125% 2028. We trimmed our longer-dated gilt holdings in UK Treasury 1.125% 2073, UK Treasury 4.25% 2049, UK Treasury 4.25% 2042 and UK Treasury 4.25% 2046.

## OUTLOOK

The disruptions to global trade stemming from the recent tariff announcements are not only inflationary but also have the potential to adversely affect economic growth and employment. The heightened macro-economic uncertainty created by the fallout from such policies warrants caution. Central bankers will weigh the benefits of any monetary policy actions against the risks of reinvigorating price pressures, with recent lessons from the pandemic-induced inflation experience limiting the likelihood of a quick response.

Risk sentiment is deteriorating alongside consumer and business confidence. Even though some of the real-world implications are yet to come through, the lack of certainty is already paralysing business investment decisions and increasing the chances of lower corporate earnings. Safe-haven assets such as sovereign debt are rallying. Credit risk premia are widening, after having tightened to historic lows. The underperformance of risky assets is particularly apparent on lower-quality segments of the corporate debt universe such as sub-investment grade debt, vindicating our caution here. Concerns around higher bond issuance and fiscal discipline combined with emerging upside inflation risks support the case for shorter- and intermediate-maturity tenors as compared to exposures further out of the yield curve.

The likelihood of further interest rate cuts is supportive of the broader asset class nonetheless, and rising credit spreads are bound to create better risk-adjusted returns. Timing is key though. We maintain a cautious stance towards lower-rated, 'higher-beta' assets and a bias towards higher-quality debt, from which we are benefitting. Amidst the changing global trade dynamics, recession and default risks may have further to run before we gain confidence on the economic outlook.

As such, 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. We have maintained a longer relative duration albeit with term structure positioned to benefit from potential yield curve steepening and rate cut prospects. We continue to rely on higher credit quality to enhance overall portfolio liquidity whilst preserving capital.

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| PERFORMANCE DISCRETE | 12 Months to 31/03/2021 | 12 Months to 31/03/2022 | 12 Months to 31/03/2023 | 12 Months to 31/03/2024 | 12 Months to 31/03/2025 |
|---|---|---|---|---|---|
| Fund (B Class) | 12.2% | -3.6% | -8.9% | 8.2% | 3.5% |
| Sterling Bond Benchmark* | 7.0% | -5.2% | -10.2% | 6.1% | 2.4% |
| IA £ Strategic Bond | 13.0% | -2.4% | -6.2% | 7.3% | 5.2% |
| Sector Quartile | 2 | 3 | 4 | 2 | 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.



For 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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