EdenTree R&S Short Dated Bond Fund

Q4 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	0.4%	2.4%	3.6%	4.0%	4.9%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	0.3%	2.5%	3.5%	2.5%	3.6%	-
IA £ Corporate Bond	-0.4%	2.1%	2.6%	-6.2%	-0.8%	-
Sector Quartile	1	2	2	1	1	-

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

Data as at 31.12.2024

YIELDS**

Distribution	*4.09%*
Underlying	*3.74%*
Historic	*3.21%*

Source: EdenTree.

MARKET REVIEW

Short-Dated bond yields rose sharply over the quarter, amidst increasing uncertainly and with market participants expecting less interest rate cuts on resurging inflation risks. Whilst various central banks continued to cut interest rates, guidance shifted to signalling a more gradual pace to better incorporate potential economic consequences to changes in governments' trade and fiscal policies. The Bank of England cut its benchmark interest rate by 0.25% to 4.75% in November. The FTSE UK Gilts under 5-year yield began the period at 3.85% and rose to a high of 4.35% before falling to end the quarter at 4.24%.

The US Federal Reserve cut its benchmark rate in smaller 0.25% increments in November and December to 4.5%, highlighting its cautious approach compared to an inaugural 0.5% reduction the previous quarter. Similarly, the European Central Bank cut its main interest rate by 0.25% in October and December respectively, to 3%. Whilst policymakers grew more confident that inflation was settling at the 2% target sustainably, they nonetheless flagged that risks to consumer prices were more balanced and held back from enacting a larger interest rate cut.

Credit risk premia tightened over the quarter, ending the period around historic lows as risk sentiment improved. As gilt yields rose, the rally in risky assets saw corporate bonds considerably outperform as compared to sovereign debt with short-dated tenors even registering absolute gains over the period.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of 0.4% was ahead of its iBoxx Non-Gilts 1-5 years ex BBB Index benchmark (0.3%) over the period under review. Its performance was largely a result of its credit selection in the Financials sector, where credit spreads declined the most. There was also a positive contribution from the utilities sector as sentiment around water companies improved into the year end on prospects of better regulatory review outcomes.

The Fund maintained its allocation to lower beta quasi-government debt as risk premia narrowed. It further reduced floating rate note exposure in anticipation of central banks paring back restrictive monetary policy conditions via interest rate cuts.

This further increased the Fund's interest rate sensitivity, albeit bringing it in-line relative to its comparator index as uncertainty around fiscal policy actions took hold.

Over the period, the Fund initiated holdings in newly-issued Rabobank 4.875% 2029, Schroders plc 6.346% 2034 (2029 call) and Svenska Handelsbanken 4.625% 2032 (2027 call). It sold positions in Close Brothers Group 7.75% 2028, National Australia Bank February 2025 FRN, International Finance Corporation 0.25% 2025, KFW 1.375% 2025, Banque Federative Credit Mutuel 1.25% 2025, BNG Bank 0.375% 2025, United Utilities 2% 2025, Motability 3.75% July 2026, Next Group plc 4.375% 2026, London & Quadrant 2.625% 2026, Yorkshire Building Society 3.5% 2026, Lloyds Bank 1.875% 2026, Banque Federative Credit Mutuel 1% 2026 and Bazalgette Finance 2.375% 2027.

OUTLOOK

Policymakers have cautiously acknowledged progress on falling headline inflation by enacting interest cuts. Central banks nonetheless remain wary of reinvigorating upward price pressures in the face of a fast-evolving geopolitical backdrop. Higher energy prices also raise the risk of adverse base effects to year-on-year inflation data. That global bond yields have risen as benchmark interest rates are reduced highlights the scale of policy uncertainty, particularly in the aftermath of November's US presidential election. Labour market indicators continue to gain prominence in monetary policy deliberations and may well influence the pace at which further actions are enacted.

Though robust, global economic growth is set to takes more cues from fiscal policies and or tariffs announced by incoming governments across the world. Thus far, the threat of tariffs has seen Chinese government officials pledge to continue supporting growth via series of measures including guidance to allow currency weakness in 2025 and to keep monetary policy 'appropriately loose'. Debt sustainability concerns are also rightly coming to the fore for countries running large budget deficits such as the US, UK and France, resulting in higher volatility and term premia on longer-dated debt. A favourable growth backdrop continues to support corporate earnings with default risks lower for issuers able to withstand the higher interest rate environment. Credit risk premia at historic tights justifies caution, notably on speculative-grade debt. The central banks' pivot to a more gradual global interest rate cut cycle vindicates our incremental process of adding to interest rate sensitivity. We maintain a cautious stance towards lower-rated, 'higher-beta' assets and a bias towards higher quality debt.

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. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

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PERFORMANCE DISCRETE ROLING 12 MONTHS	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023	12 Months to 31/12/2024
Fund (B Class)	2.3%	-1.4%	-5.2%	5.9%	3.6%
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	2.7%	-1.5%	-6.6%	5.9%	3.5%
IA £ Corporate Bond	7.9%	-1.9%	-16.4%	9.3%	2.6%
Sector Quartile	4	2	1	4	2

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 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 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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