Q2 2026 Commentary

EdenTree Sustainable Sterling Bond Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund Performance (B Class)	3.0%	0.9%	4.8%	24.5%	4.7%	34.5%
Sustainable Sterling Bond Benchmark*	2.6%	1.0%	4.3%	20.5%	-2.5%	11.8%
IA £ Strategic Bond	2.6%	1.8%	5.2%	22.6%	9.1%	34.9%
Sector Quartile	1	3	3	2	4	3

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

Yields**	
Distribution	4.9%
Underlying	4.3%
Historic	5.0%

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 recent peaks, leading market participants to pare back their inflation expectations and price in fewer near-term interest rate rises.

The UK 10-year gilt yield started the period at 4.92% and rose to a high of 5.17% in May before falling to a low of 4.68% in June and ending the period at around 4.76%. The Bank of England (BoE) maintained 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 Sterling Bond Fund outperformed both its iBoxx Non-Gilts benchmark and the IA Sterling Strategic Bond sector over the quarter. The Fund's performance was aided by its higher interest rate sensitivity and its exposures within credit, as bond markets rebounded with the decline in yields.

The Fund's security selection contributed positively to performance over the period, notably within the financial sector, where it has an overweight allocation. Its holdings rallied more than the broader corporate bond market as credit risk premia tightened, more than recouping losses registered earlier in the year.

Credit spreads tightened over the quarter to historically tight levels. Falling gilt yields were the main driver of returns across corporate bond markets, reflecting a broadly supportive environment for credit.

Over the quarter, the Fund initiated positions in the newly issued UK Treasury 4.625% 2037 green gilt, Liverpool Victoria 7.625% 2046 (2036 call) and the Belong 7.5% 2033 Retail Charity Bond. The Fund also added to its existing holdings in Places for People 6.25% 2041, UK Treasury 3.75% 2053 and UK Treasury 1.5% 2053 green gilt.

There were also redemptions in the Fund's holdings of Charities Aid Foundation 5% 2026 Retail Charity Bond, Liverpool Victoria 9.44% 2043 and Belong 4.5% 2026 Retail Charity bond. To raise cash, the Fund sold its holdings in the Motability 5.75% 2051 and Bazalgette Finance 2.375% 2027 bonds.

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. In this context, higher all-in yields offer attractive carry, especially in newly issued, shorter-dated corporate bonds where compensation remains relatively compelling.

We continue to favour a disciplined and selective approach. Upward pressure on longer-dated sovereign yields reflects concerns around fiscal deficits, as elevated debt issuance coincides with weaker growth expectations. We have maintained a more neutral duration stance by increasing exposure to shorter and intermediate tenors. Portfolio positioning remains focused on higher-quality credit with strong cash flows and ample liquidity, with carry expected to remain an important driver of returns through the remainder of the year.

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)	-11.7%	-4.8%	11.8%	6.3%	4.8%
Sustainable Sterling Bond Benchmark*	-13.1%	-6.9%	9.7%	5.3%	4.3%
IA £ Strategic Bond	-10.8%	-0.2%	8.8%	7.0%	5.2%
Sector Quartile	3	4	1	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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