Q4 2025 Commentary

EdenTree Sterling Bond Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund Performance (B Class)	3.3%	3.9%	8.3%	21.0%	4.1%	35.1%
Sterling Bond Benchmark*	2.6%	3.3%	6.9%	18.1%	-5.9%	23.4%
IA £ Strategic Bond	1.6%	3.4%	7.4%	21.3%	8.1%	37.5%
Sector Quartile	1	2	2	2	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 31.12.2025

Yields**	
Distribution	4.7%
Underlying	4.2%
Historic	4.8%

Source: EdenTree. Data as at 31.12.2025

Market review

Sterling-denominated bonds rallied over the quarter as gilt yields fell; the 10-year UK gilt yield began the period at 4.70% and fell to a low of 4.39%, before ending the period at 4.48%. During the quarter, higher-than-expected unemployment and easing inflation increased market expectations of further near-term UK interest rate cuts. In December, the Bank of England (BoE) cut its benchmark interest rate by 25 basis points (bps) to 3.75%, its fourth cut of the year.

In the US, the Federal Reserve (Fed) cut its benchmark interest rate by 25 bps in both October and December, bringing the target range to 3.50%-3.75%, marking a total of three reductions in 2025. However, stronger-than-expected growth and employment data have tempered expectations for further easing in the coming weeks. The European Central Bank left its benchmark policy rate unchanged at 2.00% as expected, with upward revisions to inflation contributing to a more hawkish outlook.

Credit spreads were broadly stable over the quarter, remaining near historically tight levels following their earlier rally alongside risk assets. Underlying sovereign bond prices were, therefore, the main driver of performance, with longer-duration corporate bonds outperforming shorter-dated bonds on higher interest rate sensitivity as gilt yields declined across the curve. Lower-rated corporate bonds generally continued to outperform higher-rated investment grade debt, except for sub-investment grade debt where risk premia widened.

Performance and activity

The EdenTree Sterling Bond Fund significantly outperformed both its iBoxx Non-Gilts benchmark and the IA Strategic Bond sector over the quarter. The Fund's higher interest rate sensitivity and positive credit selection boosted performance, as sovereign yields declined across maturities. Rising expectations of further BoE rate cuts drove outperformance in longer-duration debt, benefitting the Fund's exposure to longer-duration corporate bonds and gilts. As a result, the Fund more than recouped the previous quarter's underperformance in the latter.

With credit spreads near historic tights and corporate bond issuance subdued, investors sought yield. This supported the Fund's financial holdings, notably subordinated debt holdings with higher beta, including banks and insurers. The tender of the Skipton 12.875% Permanent Interest-Bearing Shares (PIBS) that the Fund held, at a double-digit premium, benefitted the Fund materially whilst inspiring a rally in other holdings of both PIBs and preference shares.

Over the period, the Fund initiated positions in the newly issued Nationwide 5.5% 2036 (2031 call), Northern Powergrid 5.875% 2055 and Anglian Water 6.25% 2041 bonds. It also added new holdings in One Savings Bank 7.75% perps (2031 call), Nationwide 7.875% perps (2031 call), Anglian Water 5.375% 2031 green bond, Coventry 8.75% perps (2029 call) and Lloyds Banking Group 7.875% perp (2029 call) in part to reinvest proceeds from the Skipton 12.875% PIB redemption but also following the Fund's Co-Operative Group 11% December 2025 maturity.
Sales of SSE plc 3.74% perp (2026 call), PRS Finance 2% 2029, Lloyds 7.5% perp (2030 call), Motability plc 5.75% 2051, Aviva 6.215% 2054 (2034 call), Royal London 4.875% 2049 and Pension Insurance Corporation 7.375% perp (2029 call) were also conducted to raise cash.

Outlook

A clear distinction has developed between central banks that are close to their perceived neutral policy rates and those that are not. Key market drivers include the resumption of interest rate cuts by the Fed and the more gradual easing by the BoE. If evidence of disinflation builds, further rate reductions by the BoE are expected, particularly as the policy rate approaches a "neutral" level. As such, the Bank of Japan is an outlier, with its policymakers in pursuit of higher interest rates.

Heightened uncertainty on inflation and fiscal policy is likely to weigh on the longer end of yield curves, supporting higher term premia. The upcoming change in the Fed's leadership is also noteworthy, with Powell's replacement's likely propensity to be dovish increasing the prospect of more near-term Fed rate cuts.

Credit spreads remain close to historic tights, limiting the appeal of riskier corporate bonds (as the compensation for associated risks, including default, diminishes) and reinforcing the need for a flexible, selective investment approach. Sovereign debt offers compelling value, as does new corporate issuance, where attractive all-in yields provide opportunities across sectors.

Market participants increased their scrutiny of budget deficits across major economies, including the US, UK and France, with concerns around governments' abilities to deliver fiscal consolidation remaining high. At the same time, inflation stickiness provides a further challenge, with markets adjusting to a new normal where inflation may average closer to 3% than 2%, potentially constraining the pace and depth of future interest rate cuts. Against this backdrop, we continue to favour shorter and intermediate tenors and are cautious of lower-quality corporate debt.

We, therefore, remain vigilant in seeking out opportunities to add to high-quality credits and carry, scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk. We are moderating our longer relative duration bias as central banks conclude their rate-cutting cycle, with term structure positioned to benefit from potential yield curve steepening. We continue to rely on higher credit quality to enhance overall portfolio liquidity while preserving capital.

Performance Discrete Rolling 12 months	12 months to 31/12/2021	12 months to 31/12/2022	12 months to 31/12/2023	12 months to 31/12/2024	12 months to 31/12/2025
Fund Performance (B Class)	-0.3%	-13.6%	8.0%	3.4%	8.3%
Sterling Bond Benchmark*	-3.1%	-17.7%	8.6%	1.7%	6.9%
IA £ Strategic Bond	0.9%	-11.7%	8.0%	4.6%	7.3%
Sector Quartile	3	3	2	3	2

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 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.

Past performance is not necessarily a guide to future returns.

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