

EdenTree Sterling Bond Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund Performance (B Class)	0.6%	3.7%	4.0%	23.1%	4.6%	31.1%
Sterling Bond Benchmark*	0.7%	3.5%	3.7%	21.7%	-5.4%	18.8%
IA £ Strategic Bond	1.8%	4.1%	5.1%	24.3%	10.5%	35.6%
Sector Quartile	4	3	3	2	3	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 30.09.2025

Yields**

Distribution 4.7%

Underlying 4.2%

Historic 4.7%

Source: EdenTree. Data as at 30.09.2025

Market review

Global bond yields rose over the quarter. Higher-than-expected inflation, notably in the UK, led market participants to pare back their expectations of interest rate cuts. Fiscal concerns also kept longer-maturity bond yields higher. The Bank of England (BoE) cut its benchmark interest rate by 25 basis points (bps) to 4.00% in August, its third such action this year. The BoE maintained guidance of a “gradual and careful” pace of further rate reductions. The 10-year UK gilt yield began the period at 4.49% and rose to a high of 4.80% in September before ending the period at 4.70%.

During the quarter, the US Federal Reserve (Fed) cut its benchmark interest rate for the first time in 2025 to a target range of 4.00-4.25%, with Fed Chair Jerome Powell citing growing concerns over an already weakening labour market. The European Central Bank (ECB), having cut by a cumulative 100 bps so far in 2025, held its main benchmark interest rate at 2.00%. Policymakers have since declared this as a neutral level, given balanced risks to both economic growth and inflation in the euro area.

Alongside the rally in risk assets, credit spreads continued to tighten over the quarter and now sit at historic tights. Shorter-dated corporate bonds outperformed their longer-duration counterparts; this was influenced, to great extent, by movements in the underlying sovereign yield curves. Lower-quality debt outperformed higher-quality credit, with corporate bonds ending the period ahead of government bonds across the yield curve.

Performance and activity

The EdenTree Sterling Bond Fund marginally lagged its iBoxx Sterling Non-Gilts Index benchmark and underperformed the IA Sterling Strategic Bond sector over the quarter. As risk premia tightened, the Fund’s credit selection contributed positively to performance, particularly within financials and in shorter-dated tenors. This was partially offset by its higher interest rate sensitivity, notably in government debt, as sovereign debt yields rose more in longer-dated maturities due to growing inflation and fiscal concerns.

Within the Fund’s holdings in financials, there was a strong positive contribution to performance from the insurance sub-sector. The bulk of the Fund’s insurance exposures are subordinated debt holdings with higher beta, albeit issued by high-quality companies. These rallied considerably over the quarter, as investors renewed their search for yield. Whilst the Fund’s sensitivity to higher yields in government debt held back its performance, its reduced exposure to longer-dated gilts proved beneficial.

Over the period, the Fund initiated holdings in Scottish & Southern Energy plc 6.25% 2038 and opportunistically added to an existing position in Skipton 12.875% Permanent Interest Bearing Shares (PIBS).

Earlier in the quarter, the Fund exited its holding in Mobico 2.375% 2028 while also reducing its position in UK Treasury 0.875% 2033 green gilt to raise cash. There was also an early redemption of Credit Agricole 7.5% perpetual bond (2026 call) at a slight premium to par. Transaction activity was otherwise muted, as tighter credit spreads made relative value harder to gauge, despite attractive all-in yields.

Outlook

The global interest rate cycle appears to be de-coupling, with faster reductions by major central banks in geographies such as Europe and Canada met with limited monetary policy loosening from the Fed and BoE. The latter institutions have cut less, with the BoE, in particular, placing greater emphasis on lingering inflation risks. Even though the most recent disruption to trade has not yet resulted in higher consumer prices, a heightened level of uncertainty remains, particularly around fiscal policy.

In an environment marked by concerns around large and growing government budget deficits and a slower pace of interest rate cuts, shorter and intermediate tenor bonds tend to perform better. The trend for steeper yield curves looks set to continue.

Credit spreads are currently at historic tightness, which typically reduces the appeal of riskier corporate bonds, as the compensation for associated risks, including default, diminishes. Despite deteriorating labour markets, the global economy's resilience in the face of ongoing shocks, not least recent trade tariffs, is confounding expectations and may well see market participants persist in their renewed search for yield.

Higher budget deficits amongst major economies such as the US, UK and France are rightly garnering more attention from bond markets, particularly as attempts to curb spending are met with stiff political resistance. Fitch's downgrade of France's credit rating to single-A following France's failure to implement the required fiscal consolidation could serve as a precursor to national budget announcements elsewhere in the coming months. Interest rate risk at the long end, therefore, looks underpriced. As such, we continue to favour shorter and intermediate tenors. We also remain cautious of lower-quality corporate debt, such as sub-investment grade debt, despite the lack of an obvious catalyst for credit market weakness.

We, therefore, 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 bias. However, our term structure is 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 30/09/2021	12 months to 30/09/2022	12 months to 30/09/2023	12 months to 30/09/2024	12 months to 30/09/2025
Fund Performance (B Class)	3.7%	-18.1%	5.4%	12.4%	4.0%
Sterling Bond Benchmark*	-0.4%	-21.9%	7.0%	9.7%	3.7%
IA £ Strategic Bond	5.0%	-15.3%	5.2%	12.4%	5.1%
Sector Quartile	2	3	2	2	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 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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