EdenTree Global Impact Bond Fund

Q3 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	3.7%	3.5%	11.1%	-3.5%
Markit iBoxx Global Green, Social and Sustainable GBP Hedged TR**	3.8%	3.8%	10.9%	-6.6%
IA Global Corporate Bond	3.6%	4.0%	10.7%	-0.4%
Sector Quartile	2	2	2	3

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

YIELDS***

	Sep 2024
Distribution	*3.75%*
Underlying	*3.20%*
Historic	*2.92%*

Source: EdenTree.

MARKET REVIEW

Global bond yields fell over the quarter as expectations of interest rate cuts increased and market participants recalibrated the likely magnitude of such actions for the rest of the year. Headline inflation continued to decline, with central bankers shifting the focus to labour market conditions in assessing the appropriateness of current monetary policy.

The US Federal Reserve also enacted its inaugural interest rate cut of the cycle, opting to reduce its benchmark rate by 0.5% to 5% in September. Whilst strong economic growth continues to confound expectations alongside moderating inflation, policymakers are also keen to limit potential adverse impacts of restrictive monetary policy on employment. The European Central Bank's Governing Council continued to cut its benchmark interest rate, enacting another by 0.25% in September but cautioning on the pace of further policy easing. In a finely balanced decision, the Bank of England cut its benchmark interest rate by 0.25% to 5% in August.

Credit risk premia tightened marginally over the quarter as risky assets rallied, which continued to lend support towards risk sentiment. As such, lower-rated debt outperformed higher quality debt, with sovereigns delivering an in-line performance as compared to corporate bonds during the period.

PERFORMANCE & ACTIVITY

The Global Impact Bond Fund's total return marginally underperformed the iBoxx Global Green Social Sustainability index benchmark while outperforming the IA Global Corporate Bond sector for the period. The Fund's overweight to Sterling Credit proved beneficial despite UK rates underperforming.

The Fund's utility holdings were advantageous, with UK water company Severn Trent, Swedish power generation company Vattenfall, and Scottish Hydro Electric Transmission all top performers for the period.

Over the quarter, the Fund initiated holdings in the Green Bond of National Grid 4.061% 2036 and the Social Bond 5.375% of education provider Pearson. The Pearson education bond will be used for a wide range of projects targeting underserved education users. Examples include the "GED program," designed to help adult learners who have not completed a high school diploma and find access to further education limited. Additionally, Pearson will use the proceeds for further development of their clinical assessments, which enable practitioners to support learners identified as needing clinical diagnosis.

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OUTLOOK

After paring back significant rate cut expectations registered at the start of this year and subsequently questioning whether policy could be loosened this year, the recent dovish guidance from major central banks such as the US Federal Reserve appeared to catch market participants by surprise. With headline inflation evolving as desired towards target, albeit with upside risks towards services prices, labour market indicators are gaining prominence in determining monetary policy considerations.

Service sector growth and price inflation may therefore prove decisive in determining the pace of central bank policy easing. Geopolitical tensions, particularly related to conflicts in the Middle East, merit attention. Perhaps of increasing significance though, are the implications for increased government borrowing for countries such as France, the US and even the United Kingdom. Interest rate cuts notwithstanding, the credibility of deficit reduction plans from highly-indebted nations is likely to bear repercussions on sovereign debt yield curves and broader market volatility. The better-than-anticipated growth backdrop is supporting a benign corporate default outlook and debt restructurings thus far have been the result of issuer-specific challenges. Historical tight credit spreads nonetheless warrant caution and diminish the risk-reward profile of speculative-grade debt. Our focus is principally towards high quality credits offering attractive risk-adjusted yields.

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. With the interest rate cut cycle now underway, we are incrementally adding to interest rate sensitivity and are positioned for longer relative duration. Having reduced cash, we continue to rely on higher credit quality to enhance overall portfolio liquidity whilst preserving capital.

PERFORMANCE DISCRETE	12 Months to 30/09/2020	12 Months to 30/09/2021	12 Months to 30/09/2022	12 Months to 30/09/2023	12 Months to 30/09/2024
Fund (B Class)				2.9%	11.1%
Markit iBoxx Global Green, Social and Sustainable GBP Hedged TR**				1.7%	10.9%
IA Global Corporate Bond				2.1%	10.7%
Sector Quartile				2	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.

*Inception Date 24th January 2022

**This benchmark is a comparator against which the overall performance of the Fund can be measured. It has been chosen based on the Fund's multi-currency portfolio of debt instruments, the bulk of which possess a clear use of proceeds and as such are labelled Green, Social and or Sustainable. The portfolio manager is not bound or influenced by the index when making investment decisions and the Fund's holdings may deviate from the benchmarks constituents.

***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.

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