Global Impact Bond

Q4 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund Performance (B Class)	7.2%	6.3%	7.6%	-6.9%
Markit iBoxx Global Green, Social and Sustainable GBP Hedged TR	6.9%	5.6%	8.2%	-10.0%
IA Global Corporate Bond	6.1%	5.5%	6.7%	-4.6%
Sector Quartile	2	2	2	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
*Inception Date 24th January 2022

YIELDS

Distribution	3.19
Underlying	2.64
Historic	2.84

MARKET REVIEW

Despite a weaker start, global bonds rallied sharply over the quarter as market participants not only priced in peak interest rates but also expected looser policy in the months ahead. While some central banks maintained higher for longer forward guidance, further declines in headline inflation were acknowledged with the US Federal Reserve maintaining its benchmark interest rate at 5.5%, the level it had last raised it to in July. With economic data including growth and unemployment appearing robust, policymakers began to anticipate interest rate cuts over the forecast horizon in a notable shift. While the European Central Bank's Governing Council also kept monetary policy settings unchanged, a hawkish stance prevailed on lingering concerns around elevated levels of inflation relative to target. Reinvestments under the Pandemic Emergency Purchase Programme are to be discontinued at the end of 2024. The Bank of England held its benchmark interest rate at 5.25% over the period.

Credit spreads declined steadily over the quarter, in a similar manner to previous months, with lower-rated debt gaining considerably more than higher-quality securities as risky assets rallied. Longer-dated debt registered the greater gains and sovereign debt outperformed corporate bonds over the quarter.

PERFORMANCE & ACTIVITY

The Global Impact Bond Fund's total return outperformed both its iBoxx Global, Green, Social and Sustainable GBP Hedged benchmark as well as the IA Global Corporate Bond sector. The Fund's interest rate sensitivity was the main contributor to relative performance. Having steadily increased its interest rate sensitivity, the larger allocation to longer-dated debt, notably Treasuries and Gilts, contributed positively to performance as yields declined. With credit spreads also tighter, there was also a benefit from credit selection as subordinated debt, including financials, rallied in tandem with other risky assets in the final months of the year.

Credit spreads tightened over the period under review. However, the effect from underlying interest rates dominated. Lower inflation along with better than anticipated economic growth data supported risk sentiment, raised geopolitical risks notwithstanding. The risks associated with more challenging economic conditions in a restrictive financing environment such as higher default rates and increased risk premia have therefore taken longer to materialise but remain prevalent nonetheless as survey data softens.

Over the quarter, the Fund added to its holdings in UK Treasury 1.5% 2053 and US Treasury 3.625% 2053, while adding to positions in AXA 1.375% 2041. It also sold LB Baden-Wurttemberg 1.5% 2025 and Asian Development Bank 1.625% 2025 with the proceeds being re-invested.

OUTLOOK

The reluctance to tighten monetary policy further, with some central bankers even beginning to signal policy cuts, implies a 'peak interest rate' scenario following the latest global rate hike campaign. Whereas upside risk to the prices of goods and services remains, with tight labour markets also warranting the need to retain optionality, continued inflation declines from post-pandemic highs are noteworthy. Therefore, the market's focus has decidedly shifted to the timing with which policymakers ease financial conditions from present more restrictive levels.

Global economic growth has, thus far, held up better than expected. Near-term price increases above desired longer-term targets may serve to limit the urgency with which interest rate cuts are implemented as well as their magnitude. This points towards the latter half of 2024 as a preferable commencement period for any such changes, which also allows more time to assess the cumulative effects of the policy actions delivered thus far. Ongoing quantitative tightening at a time of reduced fiscal headroom justifies caution vis-à-vis term premia. Policymakers are nonetheless keen to soften the economic impact of higher interest rates as growth is re-prioritised ahead of key leadership contests. This policy pivot, in what has so far been a benign environment for corporate defaults, creates a favourable backdrop for bonds. We retain a bias towards high-quality corporate bonds offering attractive risk-adjusted yields, while maintaining an increased allocation to government and supra-national 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. With the interest rate hike cycle largely complete, we are positioned for longer relative interest rate sensitivity. Having reduced cash, we continue to rely on higher credit quality to enhance overall portfolio liquidity while preserving capital.

PERFORMANCE DISCRETE	12 Months to 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund Performance (B Class)					7.6%
Markit iBoxx Global Green, Social and Sustainable GBP Hedged TR					8.2%
IA Global Corporate Bond					6.7%
Sector Quartile					2

Past performance is not necessarily a guide to future returns.

YIELDS

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.

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