EdenTree R&S Short Dated Bond Fund

Q1 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	0.4%	4.2%	5.2%	0.1%	3.6%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	0.4%	4.1%	4.9%	-1.5%	1.9%	-
IA £ Corporate Bond	0.3%	8.2%	7.3%	-7.1%	2.2%	-
Sector Quartile	3	4	4	1	2	-

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

YIELDS**

Distribution	*3.50%*
Underlying	*3.15%*
Historic	*2.72%*

Source: EdenTree.

MARKET REVIEW

Shorter-dated bond yields rose at the start of the year, with stronger-than-expected data on growth and inflation seeing market participants reduce interest rate cut expectations. The latter are broadly in line with guidance from central banks, despite their increased volatility. The Bank of England held its benchmark interest rate at 5.25% while noting the need for monetary policy to be restrictive for an extended period. The FTSE UK Gilts under 5-year yield began the period at 3.59% and rose to a high of 4.28% in February before ending the quarter at 4.03%.

The US Federal Reserve also maintained its benchmark interest rate at 5.5%, unchanged since July. Although policymakers are changing their stance on the path of interest rates, officials are less decisive on the timing of forecast cuts and remain data dependent. The European Central Bank's Governing Council kept monetary policy settings unchanged but revised down its estimates of growth and inflation, in what was perceived as a shift away from its previous hawkish stance.

Credit risk premia declined over the quarter, with lower-rated debt continuing to rally as compared to higher-quality securities and in line with improved risk sentiment. Shorter maturity corporate debt, notably financials, outperformed sovereign debt over the quarter.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of 0.41% marginally outperformed that of its iBoxx Non-Gilts 1-5 years ex BBB Index benchmark (0.36%) over the period under review. The Fund's shorter relative duration proved beneficial to performance, aided by some favourable credit selection in the latter part of the period under review.

Whilst the Fund's increased exposures to lower beta quasi-government debt initially underperformed lower-rated corporates, its selection of financials sector holdings contributed positively to performance as risky assets gained, with maturities in floating rate notes having been reinvested into fixed rate debt. Higher beta credit such as subordinated financials continued to gain from credit spread tightening as sentiment towards risky assets improved.

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Over the quarter, the Fund initiated holdings in the newly issued Coventry Building Society 5.875% 2030 (2029 call), Pacific Life 5% 2028, Banque Federative Credit Mutuel 5% 2029 and Credit Agricole 5.375% 2029 (2028 call). It also added to existing positions in ING Bank 1.125% 2028 green bond, Met Life 4.5% 2027, Landesbank Baden-Wuerttemberg 1.5% 2025, Met Life Global 4.5% 2027, Credit Agricole 5.75% 2027, International Finance Corp 4.5% 2028, Council of Europe 4.25% 2026, Nationwide 6.125% 2028, Yorkshire Building Society 3.375% 2028 and Rabobank 1.875% 2028 while exiting its holding in Tritax Big Box REIT 2.625% 2026. There were also maturities of Nationwide Jan 2024, Santander Feb 2024 and Skipton Feb 2024 covered floating rate notes.

OUTLOOK

Whereas global central bankers are now firmly signalling looser monetary policy for the months ahead and acknowledge we are at or near the peak of interest rates, the timing of suggested changes remains particularly volatile and sensitive to incoming economic data. Progress on the deceleration of headline inflation contrasts with robust growth and tight labour markets. In the near term, this is prompting a reassessment of how restrictive financial conditions actually are. It also limits the urgency with which policymakers may enact supportive measures as further clarity is sought.

Survey data on economic growth is not only stronger than expected but also reflective of a rebound that is gaining momentum. It highlights upside risks to inflation. Employment has shown noteworthy resilience too, albeit with nominal wages declining. Further falls in services inflation are likely though. Geopolitical uncertainty remains a significant risk for the rest of the year, notably as we approach key leadership contests. An overall benign outlook for corporate defaults prevails despite sector-specific weakness such as in commercial real estate, where the combination of higher interest rates and lower occupancy levels is adversely impacting property valuations. The ability of heavily indebted issuers to refinance their debt is being tested as well, with some speculative grade borrowers now struggling to clear this hurdle without a restructuring. We continue to see a cautious stance towards lower-rated and 'higher-beta' assets as crucial, along with a bias towards higher-quality debt.

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. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

PERFORMANCE DISCRETE ROLING 12 MONTHS	12 Months to 31/03/2020	12 Months to 31/03/2021	12 Months to 31/03/2022	12 Months to 31/03/2023	12 Months to 31/03/2024
Fund (B Class)	-0.1%	3.6%	-2.5%	-2.4%	5.2%
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	0.5%	2.9%	-3.1%	-3.1%	4.9%
IA £ Corporate Bond	0.8%	9.2%	-4.4%	-9.4%	7.3%
Sector Quartile	3	4	1	1	4

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

Past performance is not necessarily a guide to future returns.

*As the Fund has greater exposure to short dated corporate bonds over gilts, we compare the Fund's performance to the iBoxx Non-Gilts 1-5 years ex BBB Benchmark, 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 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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For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**

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