EdenTree R&S Short Dated Bond Fund

Q2 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	0.7%	1.1%	7.8%	0.6%	3.5%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	0.7%	1.0%	8.2%	-1.1%	1.9%	-
IA £ Corporate Bond	0.1%	0.4%	10.5%	-8.6%	0.0%	-
Sector Quartile	1	2	4	1	2	-

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

YIELDS**

Distribution	*3.69%*
Underlying	*3.34%*
Historic	*2.93%*

Source: EdenTree.

MARKET REVIEW

Short-dated bond yields rose moderately as market participants pared back expectations of interest rate cuts amidst higher-than-expected core inflation. Whilst further declines on headline consumer prices were welcomed, central bankers remained cautious in guiding towards loosening monetary policy in 2024. The Bank of England held its benchmark interest rate at 5.25%, albeit with some committee members voting for a cut in June. The FTSE UK Gilts under 5-year yield began the period at 4.03% and rose to a high of 4.48% before ending the quarter at 4.23%.

Similarly, the US Federal Reserve also maintained its benchmark interest rate at 5.5%, unchanged since last July. Officials remain data-dependent and see less urgency to cut interest rates with economic growth proving robust and services inflation more persistent. The European Central Bank's Governing Council cut its benchmark interest rate by 0.25% but was less certain about further reductions until policymakers were more confident on the inflation outlook vis-à-vis its 2% target.

Credit risk premia ticked up briefly in June largely in response to the announcement of the snap parliamentary elections in France, but remained supported by improved risk sentiment, notably in shorter maturity tenors. As such, corporate debt outperformed sovereign debt over the quarter.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of 0.72% marginally outperformed that of its iBoxx Non-Gilts 1-5 years ex BBB Index benchmark (0.66%) over the period under review. Whilst the Fund's shorter relative duration positively contributed to performance as underlying gilt yields rose, favourable credit selection also boosted relative returns over the period.

The Fund's exposures to lower beta quasi-government debt outperformed, particularly in the latter part of the quarter as some risk-off sentiment saw financial sector holdings partially give up some gains that came from the earlier rally in risky assets. Higher beta credits including subordinated financials have gained from declines in corporate debt spreads nonetheless.

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Over the quarter, the Fund initiated holdings in Banco Santander 5.125% 2030, Credit Agricole 4.875% 2029 and Banque Federative Credit Mutuel 1.875% 2028. It also added to existing positions in Phoenix 5.867% 2029, BNG Bank 4.25% 2029, KFW 4.125% 2026, Inter-American Development Bank 4.75% 2029. The Fund exited holdings in Yorkshire Water 1.75% 2026Banco Santander 1.375% 2024, Credit Agricole 1.25% 2024, European Investment Bank 0.75% 2024, National Gas Transmission 7% Dec 2024, with redemptions in Lloyds May 2024 FRN, Yorkshire Building Society Nov 2024 FRN, Pension Insurance Corp 6.5% 2024, Lloyds 7.5% 2024, BNG Bank 2% 2024, MetLife 5.375% 2024, Bupa 2% 2024 also taking place.

OUTLOOK

The decline of global interest rates from cyclical peaks is apparently underway, with major central banks including the European Central Bank and the Bank of Canada having enacted initial benchmark rate cuts. Despite an increasing focus on core price movements, the progress on deceleration in headline inflation somewhat justifies a looser monetary policy stance particularly as labour market indicators suggest a softer employment outlook. Thus far, robust economic growth has accorded policymakers time to assess the restrictiveness of financial conditions.

Services sector growth has continued to confound expectations, with companies' profitability thus far better able to weather cost and wage increases. Services price inflation has therefore proved 'sticky', with associated upside risks warranting caution in context of forward-looking price stability. In the run up to key leadership contests, fiscal discipline also merits close attention for incoming governments around the world. The higher for longer interest rate environment arguably raises the significance of debt sustainability and deficit reduction proposals. Slower execution of such plans will at best be given short shrift if not penalised with sovereign rating downgrades. Both outcomes are precursors for higher risk premia and could further cascade into lower credit ratings for related sectors including banks. Whilst a benign outlook for corporate debt defaults prevails, more highly-indebted and often speculated grade issuers are resorting to debt restructurings to refinance. 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 30/06/2020	12 Months to 30/06/2021	12 Months to 30/06/2022	12 Months to 30/06/2023	12 Months to 30/06/2024
Fund (B Class)	1.7%	1.2%	-4.5%	-2.4%	7.8%
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	2.3%	0.7%	-5.1%	-3.7%	8.2%
IA £ Corporate Bond	5.7%	3.5%	-13.1%	-4.8%	10.5%
Sector Quartile	4	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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