EdenTree R&S Sterling Bond Fund

Q1 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	1.0%	8.9%	8.2%	-5.0%	5.6%	28.9%
R&S Sterling Bond Benchmark*	0.1%	7.4%	6.1%	-9.6%	-2.6%	27.3%
IA £ Strategic Bond	1.0%	8.0%	7.3%	-1.8%	8.7%	28.1%
Sector Quartile	2	1	2	3	3	3

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

YIELDS**

Distribution	*4.35%*
Underlying	*3.80%*
Historic	*4.23%*

Source: EdenTree.

MARKET REVIEW

Global 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 10-year yield began the quarter at 3.54% and rose to 4.20% in February before ending the quarter at 3.93%.

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. Some widening of sub-investment grade debt credit spreads was registered in March. Shorter-dated corporate debt, notably Financials, outperformed longer-maturity sovereign bonds over the quarter.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund's total return outperformed both its iBoxx Sterling Non-Gilts index benchmark and the IA Strategic Bond sector of the period. The Fund's increased interest rate sensitivity through exposures to longer-dated debt, particularly gilts, contributed positively to performance as bonds rallied in March. Tightening credit spreads were also beneficial to credit selection as subordinated debt in financials rallied further, alongside other risky assets.

EdenTree R&S Sterling Bond Fund

Q1 2024 Commentary

Credit spreads were the main driver of returns for the period under review, with yields having risen on the underlying gilts. Stronger growth boosted the outlook for corporate earnings and diminished near-term prospects that the restrictive financing environment would result in higher default rates. Despite some softening in high yield as the quarter ended and the probability of a market sell-off, weakness in risky assets has taken longer to materialise.

Over the quarter, the Fund purchased some newly issued Land Securities 4.75% 2031 and added to existing positions in Royal London 4.875% 2049, Segro plc 5.125% 2041 and UK Treasury 4.5% 2042. It also exited holdings in Close Brothers 2% 2031 and Close Brothers 1.625% 2030 (2026 call) as well as reducing holdings in Berkeley Group 2.5% 2031, Morrisons 3.5% 2026, SSE plc 3.74% perp (2026 call), UK Treasury 3.75% 2053, UK Treasury 4.25% 2046 and UK Treasury 4.25% 2049. The Fund tendered holdings in AXA 5.453 perp (2026 call) and KPN 5.75% 2029 at premia to par.

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 therefore continue to maintain a bias towards high quality credits offering attractive risk-adjusted yields.

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 have positioned for moderately longer relative interest rate sensitivity. Having reduced cash, we continue to rely on higher credit quality to enhance overall portfolio liquidity whilst preserving capital.

PERFORMANCE DISCRETE	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)	-1.0%	12.2%	-3.6%	-8.9%	8.2%
R&S Sterling Bond Benchmark*	0.8%	7.0%	-5.2%	-10.2%	6.1%
IA £ Strategic Bond	-2.1%	13.0%	-2.4%	-6.2%	7.3%
Sector Quartile	3	2	3	4	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.

*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.

EdenTree R&S Sterling Bond Fund

Q1 2024 Commentary

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance is not necessarily a guide to future returns.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass.

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Benefact House, 2000, Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, United Kingdom.