

EdenTree R&S Sterling Bond Fund

Q4 2024 Commentary



PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	-0.8%	1.9%	3.4%	-3.5%	2.3%	25.5%
R&S Sterling Bond Benchmark*	-0.5%	1.8%	1.7%	-9.1%	-5.1%	16.1%
IA £ Strategic Bond	-0.5%	3.1%	4.6%	-0.2%	6.8%	27.8%
Sector Quartile	3	3	3	3	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested
Data as at 31.12.2024

YIELDS**

Distribution	4.65%
Underlying	4.10%
Historic	4.38%

Source: EdenTree.

MARKET REVIEW

Global bond yields rose sharply over the quarter, amidst increasing uncertainty and with market participants expecting less interest rate cuts on resurging inflation risks. Whilst various central banks continued to cut interest rates, guidance shifted to signalling a more gradual pace to better incorporate potential economic consequences to changes in governments' trade and fiscal policies. The Bank of England cut its benchmark interest rate by 0.25% to 4.75% in November. The 10-year yield began the quarter at 4% and rose to a higher of 4.63% in December before ending the quarter at 4.57%.

The US Federal Reserve cut its benchmark rate in smaller 0.25% increments in November and December to 4.5%, highlighting its cautious approach compared to an inaugural 0.5% reduction the previous quarter. Similarly, the European Central Bank cut its main interest rate by 0.25% in October and December respectively, to 3%. Whilst policymakers grew more confident that inflation was settling at the 2% target sustainably, they nonetheless flagged that risks to consumer prices were more balanced and held back from enacting a larger interest rate cut.

Credit risk premia tightened over the quarter, ending the period around historic lows as risk sentiment improved. As gilt yields rose, the rally in risky assets saw corporate bonds considerably outperform as compared to sovereign debt with short-dated tenors even registering absolute gains over the period.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund's total return lagged its iBoxx Sterling Non-Gilts index benchmark and the IA Strategic Bond sector over the period. The Fund's higher interest rate sensitivity adversely impacted its performance as underlying gilt yields rose sharply in December, despite a positive contribution from credit selection in both the financials and consumer discretionary sectors.

Sovereign debt yields were therefore the main driver of underperformance for the period under review, with declines in the Fund's gilt longer-dated holdings more than offsetting favourable credit selection as market participants moved to discount fewer interest rate cuts. Whilst it has continued to increase its credit quality, the Fund nonetheless benefitted from the rally in risky assets that saw credit spreads tighten further particularly on subordinated debt over the quarter.

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Over the quarter, the Fund initiated holdings in the newly-issued Anglian Water 6.25% 2044 green bond, Rothesay Life 7.019% 2034, United Utilities 5.25% 2046 and added to holdings in Motability 5.75% 2051, Royal London 10.125% perpetual (2033 call), UK Treasury 1.5% 2053. The proceeds of the Fund's redemption in its Nationwide 6.25% PIB were partly reinvested by topping up on holdings in Coventry Building Society 12.125% PIB and Skipton 12.875% PIB. The Fund sold holdings in Society of Lloyds 4.75% 2024, National Grid 5.625% 2073 (2025 call) to raise cash and switched from its Burberry 1.125% 2025 holding into the longer-dated Burberry 5.75% 2030.

OUTLOOK

Policymakers have cautiously acknowledged progress on falling headline inflation by enacting interest cuts. Central banks nonetheless remain wary of reinvigorating upward price pressures in the face of a fast-evolving geopolitical backdrop. Higher energy prices also raise the risk of adverse base effects to year-on-year inflation data. That global bond yields have risen as benchmark interest rates are reduced highlights the scale of policy uncertainty, particularly in the aftermath of November's US presidential election. Labour market indicators continue to gain prominence in monetary policy deliberations and may well influence the pace at which further actions are enacted.

Though robust, global economic growth is set to take more cues from fiscal policies and or tariffs announced by incoming governments across the world. Thus far, the threat of tariffs has seen Chinese government officials pledge to continue supporting growth via series of measures including guidance to allow currency weakness in 2025 and to keep monetary policy 'appropriately loose'. Debt sustainability concerns are also rightly coming to the fore for countries running large budget deficits such as the US, UK and France, resulting in higher volatility and term premia on longer-dated debt. A favourable growth backdrop continues to support corporate earnings with default risks lower for issuers able to withstand the higher interest rate environment. Credit risk premia at historic tightness justifies caution, notably on speculative-grade debt. The central banks' pivot to a more gradual global interest rate cut cycle vindicates our incremental process of adding to interest rate sensitivity. Our focus remains 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 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	12 Months	12 Months	12 Months	12 Months
	to	to	to	to	to
	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024
Fund (B Class)	6.4%	-0.3%	-13.6%	8.0%	3.4%
R&S Sterling Bond Benchmark*	7.8%	-3.1%	-17.7%	8.6%	1.7%
IA £ Strategic Bond	6.1%	0.9%	-11.7%	8.0%	4.6%
Sector Quartile	3	3	4	2	3

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.

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