EdenTree R&S Short Dated Bond Fund

Q3 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	2.0%	2.7%	7.0%	2.9%	4.6%	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	2.1%	2.8%	7.1%	1.4%	3.1%	-
IA £ Corporate Bond	2.6%	2.7%	11.1%	-5.8%	-0.5%	-
Sector Quartile	4	2	4	1	1	-

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

YIELDS**

Distribution	*4.48%*
Underlying	*4.13%*
Historic	*3.08%*

Source: EdenTree.

MARKET REVIEW

Short-Dated bond yields fell over the quarter as expectations of interest rate cuts increased and market participants recalibrated the likely magnitude of such actions for the rest of the year. Headline inflation continued to decline, with central bankers shifting the focus to labour market conditions in assessing the appropriateness of current monetary policy. In a finely balanced decision, the Bank of England cut its benchmark interest rate by 0.25% to 5% in August. The FTSE UK Gilts under 5-year yield began the period at 4.23% and rose to 4.28% before falling to a low of 3.62% in September and ending the quarter at 3.85%.

The US Federal Reserve also enacted its inaugural interest rate cut of the cycle, opting to reduce its benchmark rate by 0.5% to 5% in September. Whilst strong economic growth continues to confound expectations alongside moderating inflation, policymakers are also keen to limit potential adverse impacts of restrictive monetary policy on employment. The European Central Bank's Governing Council continued to cut its benchmark interest rate, enacting another by 0.25% in September but cautioning on the pace of further policy easing.

Credit risk premia tightened marginally over the quarter as risky assets rallied, which continued to lend support towards risk sentiment. As such, lower-rated debt outperformed higher quality debt, with sovereigns delivering an in-line performance as compared to corporate bonds during the period.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of 1.96% underperformed that of its iBoxx Non-Gilts 1-5 years ex BBB Index benchmark (2.14%) over the period under review. Its performance was largely a consequence of its shorter relative duration as shorter-dated gilt yields declined, despite benefitting from credit selection as BBB-rated which rallied to a greater extent, notably in the Financials sector.

Whereas the Fund maintained its allocation to lower beta quasi-government debt with risk premia at or approaching historic lows, floating rate note exposure was reduced as confidence in interest rate cuts from the major central banks grew. The interest rate sensitivity of the Fund is now higher therefore, as purchases and reinvestments were focused on fixed rate debt around the 5-year maturity tenor point of the yield curve.

Over the period, the Fund initiated holdings in Banque Federative Credit Mutuel 5% 2029, Realty Income 5% 2029, International Finance Corp 3.875% 2030, Nordea Bank 4.5% 2029 and ING Groep 6.25% 2033 (2028 call). It also added to existing positions in Banco Santander 5.125% 2030 and Pacific Life 5.375% 2028. The Fund exited holdings in Royal Bank of Canada 1.375% 2024, World Bank 0.875% 2024, Bank of Nova Scotia Oct 2024 FRN, Bank of Nova Scotia June 2026 FRN, Asia Development Bank 2.5% 2024, Neder Waterschapsbank 2% 2024, ABN Amro 1.375% 2025 and A2 Dominion 3.5% 2028. It also further reduced exposures in the 1-2 years term structure maturity bucket.

OUTLOOK

After paring back significant rate cut expectations registered at the start of this year and subsequently questioning whether policy could be loosened this year, the recent dovish guidance from major central banks such as the US Federal Reserve appeared to catch market participants by surprise. With headline inflation evolving as desired towards target, albeit with upside risks towards services prices, labour market indicators are gaining prominence in determining monetary policy considerations.

Service sector growth and price inflation may therefore prove decisive in determining the pace of central bank policy easing. Geopolitical tensions, particularly related to conflicts in the Middle East, merit attention. Perhaps of increasing significance though, are the implications for increased government borrowing for countries such as France, the US and even the United Kingdom. Interest rate cuts notwithstanding, the credibility of deficit reduction plans from highly-indebted nations is likely to bear repercussions on sovereign debt yield curves and broader market volatility. The better-than-anticipated growth backdrop is supporting a benign corporate default outlook and debt restructurings thus far have been the result of issuer-specific challenges. Historical tight credit spreads nonetheless warrant caution and diminish the risk-reward profile of speculative-grade debt. Whilst we are incrementally adding to interest rate sensitivity with the global interest rate cut cycle now truly underway, we maintain a cautious stance towards lower-rated, ‘higher-beta’ assets and a bias towards higher quality 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. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

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PERFORMANCE DISCRETE ROLING 12 MONTHS	12 Months to 30/09/2020	12 Months to 30/09/2021	12 Months to 30/09/2022	12 Months to 30/09/2023	12 Months to 30/09/2024
Fund (B Class)	1.6%	0.0%	-8.2%	4.8%	7.0%
iBoxx Non-Gilts ex BBB 1-5 TR GBP*	1.9%	-0.2%	-10.6%	5.9%	7.1%
IA £ Corporate Bond	4.3%	1.2%	-20.8%	7.1%	11.1%
Sector Quartile	4	3	1	3	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.

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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