EdenTree R&S Sterling Bond Fund

Q3 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	2.8%	3.2%	12.4%	-3.0%	4.8%	28.7%
R&S Sterling Bond Benchmark*	2.3%	2.1%	9.7%	-8.4%	-5.2%	24.0%
IA £ Strategic Bond	3.6%	4.1%	12.4%	0.1%	8.3%	30.3%
Sector Quartile	3	3	2	3	3	3

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

YIELDS**

Distribution	*3.80%*
Underlying	*3.25%*
Historic	*4.31%*

Source: EdenTree.

MARKET REVIEW

Global 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 10-year yield began the quarter at 4.17% and fell to a low of 3.76% in September before rising to end the quarter at 4%.

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 Sterling Bond Fund's total return outperformed its iBoxx Sterling Non-Gilts index benchmark despite lagging behind the IA Strategic Bond sector of the period. The Fund's increased interest rate sensitivity and credit selection both contributed positively to performance as underlying gilts rallied and 'higher beta' assets benefitted from gains in risky assets.

Sovereign debt yields continued to be the main driver of returns for the period under review, aided by favourable credit selection in niche holdings in preference shares and Building Society PIBs. The Fund's holding in RSA Insurance preference shares was tendered at a significant premium. The sovereign bond rally registered earlier in the quarter boosted the Fund's longer-dated gilt holdings.

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Over the quarter, the Fund initiated holdings in the newly-issued Aviva 6.125% 2054 (2034 call), Credit Agricole 5.75% 2034 (2029 call) and Anglian Water 6.25% 2044. The Fund also bought Rothesay Life 7.019% 2034, UK Treasury 0.625% 2050 and Burberry 5.75% 2030 whilst adding to holdings in Skipton Building Society 12.875% PIB, Coventry Building Society 12.125% PIB and Standard Chartered 7.375% perps from the proceeds of successfully tendering RSA 7.375% preference shares. It reduced shorter-dated exposures by selling Burberry 1.125% 2025, National Grid 5.625% 2073 (2025 call), Society of Lloyds 4.75% 2024 and Credit Agricole 1.874% 2031 (2026 call).

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. Our focus is 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 incrementally adding to interest rate sensitivity and 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 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)	4.2%	3.7%	-18.1%	5.4%	12.4%
R&S Sterling Bond Benchmark*	3.8%	-0.4%	-21.9%	7.0%	9.7%
IA £ Strategic Bond	3.1%	5.0%	-15.3%	5.2%	12.4%
Sector Quartile	2	2	3	2	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.

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