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investment management

EdenTree Global Sustainable Government Bond Fund

Fund in focus

Sustainability Focus

Fund overview

The EdenTree Global Sustainable Government Bond (GSGB) Fund is managed by David Katimbo-Mugwanya, Head of Fixed Income.

The GSGB Fund is the latest addition to EdenTree's range of sustainable fixed-income portfolios. It addresses client-led demand for a sustainable Fund solution within the government bond sector, amidst a dynamic and rapidly expanding market for ESG-labelled sovereign debt, as governments around the world issue increasing numbers of bonds linked to climate commitments and other sustainability-related objectives.

As such, the GSGB Fund focuses on sovereigns and government-related entities (including sub-sovereign issuers, agencies, supranational organisations and multilateral development banks). A minimum 80% of the GSGB Fund's portfolio holdings consists of use-of-proceeds green, social and sustainable debt from such issuers at any given time. These bonds finance projects that reduce carbon emissions and enable greater access to services that empower communities globally. The remaining 20% allows for exposure to non-labelled sovereign debt that passes EdenTree's strict sustainability criteria, to align risk.

The Fund's overall risk profile as measured against its Bloomberg Global Aggregate Treasuries Index (GBP Hedged) benchmark is expected to be low, with modelled tracking error of less than 2.5%. The portfolio is diversified by region, term structure, currency and issuer in the context of G10 currencies and developed markets. Foreign currency exposures are hedged back into sterling, with the number of individual holdings expected to increase as the Fund scales. Incomes are paid to investors on a quarterly basis, and the Fund targets capital growth on a five-year basis.

Investing with Focus

Focus investing is where funds invest in assets that are environmentally or socially sustainable, determined by a robust, evidence-based standard of sustainability. To reinforce its focus credentials, the EdenTree Global Sustainable Government Bond Fund has adopted the FCA's 'Sustainability Focus label' in line with the new Sustainability Disclosure Requirements (SDR).

The Sustainability Focus label is part of the UK regulator's effort to raise the bar for sustainable investing. It is designed to help consumers find their way and enhance clarity and confidence in focus investment approaches by clearly identifying those funds that invest mainly in assets that focus on sustainability for people or the planet.

We believe the Sustainability Focus label aligns with the Fund's approach to selecting holdings based on the combination of its sustainability characteristics and long-term financial return. We consider the Fund's sustainability and financial goals to be complementary and are not looking to compromise on either or deliver concessionary financial returns.

Opportunities in sustainable government debt

While sustainability-focused investing has a long history, its modern manifestation – defined by a focus on climate-related impacts, sophisticated screening methods and the use of 'ESG' as a key label – is still relatively young. Indeed, the validity of sustainability investing is still being debated in some regions. In the US, for example, ESG labelling has come under sustained criticism from some high-profile political figures, with a sovereign green bond proving a distant prospect thus far.

Despite some scepticism, the importance of sustainable investing is for the most part accepted; most states (and large corporations) are treating topics like climate change, climate-financial risk and decarbonisation efforts seriously. Around the world, numerous governments and influential supranational entities have made climate-financial policies key elements of their respective agendas and have mounted efforts to mobilise capital to help address these issues. The issuance of green bonds, which are used to finance sustainable projects and facilitate decarbonisation, is a key tool for governments working towards meeting their net-zero commitments and or other climate objectives.

Indeed, policy-driven issuance of such use-of proceeds debt has created a wealth of opportunity for impact investors. Sovereign issuance accounts for a growing share of ESG-labelled debt: Over 2024 and at the time of writing, sovereign and quasi-government issuers accounted for nearly 45% of green, social and sustainable bonds. Source: Linklaters, November 2024

Macroeconomic factors have also created a favourable environment for bonds and fixed-income investments are today described as enjoying a "sweet spot" by numerous commentators. With momentum building behind ESG-labelled debt and bonds overall supported by strong tailwinds, our outlook for the asset class is strongly positive.

The "sweet spot" that bond investors have identified is driven largely by inflation and monetary policy dynamics. In response to high inflation across economies, most of the world's major central banks hiked interest rates sharply in 2022. Yields on sovereign bonds rose in tandem and remain close to historic highs.

Some central banks – including the US Federal Reserve, the European Central Bank and the Bank of England – having seen headline inflation decline towards their targets, have initiated interest-rate cuts in response. This means lower yields on sovereign bonds issued in the future but higher prices for those higher-yielding bonds currently held by investors.

Fixed income's classic position as a hedge for equity holdings is also significant. Though equity markets have enjoyed massive post-Covid gains, investing in companies comes with plenty of risk. Along with upward trends in volatility in equities, concerns abound about concentration, speculative bubbles and stretched valuations, making bonds even more popular as a risk-mitigation tool, notably sovereign bonds.

Bonds also offer some relative advantages over cash holdings. Whilst bonds generally involve more risk than cash, fixed-income returns are typically higher – especially in periods where interest rates are falling.

In addition, increasing harmonisation of standards and regulations for ESG-labelled debt in the European Union – like the EU Green Bond Standard – help to meet investor needs and increase confidence in the instruments. The common standards being rolled out are expected to ease large-scale issuance for sovereigns, enabling higher volumes in the asset class.

The GSGB Fund is ideally placed to take advantage of these supportive trends. As specialist responsible and sustainable investors, EdenTree's fund managers have extensive experience in locating opportunities that align with impact objectives.

EdenTree, a long-standing sustainable investor

EdenTree's well established track record of responsible and sustainable investment leadership has put it in a prime position to deliver credible client solutions like the recently launched GSGB Fund. Over the years, EdenTree has constructively engaged with numerous companies and issuers both individually and collaboratively, thereby developing an in-depth understanding of material sustainability risks, encouraging best practice and catalysing positive change.

We conduct engagements on an asset-class-agnostic basis; our size enables a nimbler investment approach in cases where an issuer's direction of travel warrants divestment, as compared to larger holders for whom such restrictions may prove more challenging.

In addition, with ESG integration strategies now in the mainstream for investee companies, we find that possessing a long-standing track record across several strategies plays to our advantage in the book-building process where companies are issuing new capital including via green, social and sustainable bonds in primary markets. Not only is our input sought as companies continue to build out their sustainability policies or knowledge, but we are also able to provide valuable feedback as issuers set or report on key performance indicators against which they measure their positive impact.

How do EdenTree screen governments?

A key element of EdenTree's sustainable investment approach – which governs our investment activities across all our Funds – is our proprietary screening process. For the GSGB Fund specifically, a major component of the screening process is our "negative screen" based on the Oppressive Regimes pillar. As the Fund focuses on sovereign debt, it is paramount that we avoid investments in any national governments or sub-sovereign organisations which are involved in human rights abuses.

The oppressive regimes screen is a comprehensive lens, and sovereign issuers with any of the following characteristics are considered fundamentally misaligned with the Fund's Sustainability objective.

- Authoritarian or totalitarian governments
- Governments that operate without regard to the rule of law (employing arbitrary detention or extrajudicial execution, for example)
- Governments that commit persecution, including genocide, ethnic cleansing or identity-based oppression
- Governments that use torture
- Governments that suppress civil society institutions
- Governments that restrict freedom of expression, persecute human rights activists or trade unions
- Governments that unduly restrict freedom of movement or employ forced displacement
- Governments that restrict and censor media or persecute journalists
- Governments that employ slave labour or child labour
- Governments that sponsor the persecution of women and girls
- Governments engaged in activities within disputed territories that may lead to complicity in violating human rights

In compiling its oppressive regimes rankings list, EdenTree examines the assessments of three leading data providers: Freedom House, which produces the Freedom in the World report; Transparency International, which produces the Corruption Perceptions index; and the World Economic Forum, which produces the Global Gender Gap report.

Using these inputs, EdenTree creates a weighted average for each country, with those falling under a threshold of 30% considered oppressive regimes. The GSGB Fund excludes the bonds of any sovereign issuer that falls below this threshold from its investment universe. The screening process is conducted by EdenTree's Responsible Investment team, which provides invaluable research and guidance on country- and issuer-level risk.

A robust approach to portfolio construction

Where sovereigns have passed responsible screening, suitable assets with desirable risk-return profiles (as compared to the Bloomberg Global Aggregate Treasuries Index benchmark) are then sought, focusing on ESG-labelled bonds. The investment selection process also incorporates a sustainability assessment which examines qualitative factors, including the intentions behind a given issue (including environmental and social objectives); the credibility of the labelling used; and the reliability of the issuer's reporting framework.

Sub-sovereign, agency and supra-national ESG-labelled debt denominated in the same currency as these sovereign bonds not only adds diversification but is also essential for portfolio construction, particularly where sovereign issuers have no debt with the use-of-proceeds provisions sought by the Fund. This is particularly applicable to US Treasuries and Japanese Government Bonds, where both countries' sovereign debt makes up a significant part of the Fund's benchmark. Up to 20% non-labelled debt from issuers that pass our responsible screening is permissible and used to better align risk.

The Fund Managers work closely with the Risk Analytics teams to model and monitor the portfolio in accordance with its overall volatility, liquidity, tracking error and consequent factor risk tolerances as compared to the benchmark. Factor risks are broken down by country and currency allocations, term structure, key rates and credit spreads. The Fund's duration and permissible country exposures can, nonetheless, be expected to actively vary according to where we view risk-return profiles to be attractive, whilst maintaining a lower tracking error.

We also seek to ensure that individual bonds continue to meet their desired risk-reward profile based on geographic allocation, credit rating and term structure. Compliance relative to risk parameters is monitored daily via our Portfolio Management System, which includes pre-trade checks to flag warnings and prevent breaches, with portfolio compliance reviewed formally every month. Risk monitoring is conducted daily, with a formal review each calendar quarter – a process that includes the CIO and our Portfolio Risk Analytics function as well as independent review by the Investment Oversight Committee.

Fund Overview

Fund Objective:
The Fund aims to generate a regular income payable quarterly with some capital growth over a period of five years or more through investment in a portfolio of government and government-related green, social, sustainable or impact bonds.

Sustainability Objective:
To invest in government and government-related green, social, sustainable or impact bonds whose proceeds will be used to finance new or existing projects that support a reduction in the level of carbon emissions caused by human activities (measured in tonnes of carbon dioxide equivalent CO2 avoided), and/or to enable greater access to services that empower communities (measured in number of beneficiaries).

Fund Manager:
David Katimbo-Mugwanya, CFA (joined EdenTree in 2015)

No. of holdings:
62 (As at 31/1/2025)

IA Sector: Global Government Bond

Benchmark comparator:
Bloomberg Global Aggregate Treasuries (GBP Hedged) Index

Yield to Maturity: 3.0% (Index 2.9%)*

AMC: 0.35% (B) / 0.25% (I)

Modified Duration: 7.3 yrs (Index 7.0 yrs)*

*As at 30/9/2024

SDR label: Sustainability Focus

The Investment Team

EdenTree applies a collegiate and collaborative approach. Based in our City of London office, the Investment Team work around the same desk and are encouraged to share and challenge investment thinking and ideas.

David Katimbo-Mugwanya is the Fund Manager of the EdenTree Global Sustainable Government Bond Fund, with support from Michael Sheehan and Michael Moir.

David Katimbo-Mugwanya
Head of Fixed Income

David, as Head of Fixed Income, leads on EdenTree's responsible and sustainable Sterling Bond and the Short-Dated Bond funds, the Global Sustainable Government Bond Fund and also co-manages the Global Impact Bond Fund. David joined EdenTree in 2015 and possesses close to two decades' investment expertise within the asset class across sovereigns, corporate debt and money markets portfolios via designated mandates as well as bespoke investment solutions. David is a CFA Charterholder, holds the Investment Management Certificate (IMC) and a BSc. Economics degree from the University of Essex. David is also a member of the London Stock Exchange's Primary Markets Group, an advisory group to the LSE on matters relating to primary capital markets.

Michael Sheehan
Fund Manager

Michael joined the EdenTree Fixed Income team in 2021 and is responsible for co-managing the Global Impact Bond Fund. Michael joined from Aberdeen Standard where he assisted in managing European Investment Grade Credit Funds. Prior to that, he has held the roles of Cash & FX Analyst and Consultant Database Manager at the firm having graduated in 2011 with a BA Economics from the University of Reading. Michael is a CFA Charterholder.

Michael Moir
Senior Credit Analyst

Michael joined EdenTree in 2023 as Senior Credit Analyst in the Fixed Income Team. Michael joined from Fitch Ratings where he was a Senior Analyst in the Financial Institutions Team, and prior to this was a bank Supervisor at the Bank of England. Michael holds an Msc in Finance from the University of Warwick.

Our Responsible Investment Team

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify responsible and sustainable investment ideas for our range of Funds.

The team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of environmental, social and governance topics.

For investors, it's an added layer of assurance that our clients' money is being invested in companies that are operating in a responsible and sustainable way.

Our responsible and sustainable investment process is overseen by an independent Advisory Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

Carlota Esguevillas
Head of RI

Amelia Gaston
Senior RI Analyst

Hayley Grafton
Senior RI Analyst

Cordelia Dower-Tylee
RI Analyst

Aaron Cox
Impact Strategist

The EdenTree Team

EdenTree is a responsible and sustainable investment manager with a strong heritage. We are proud to be part of the Benefact Group – a charity-owned, international family of specialist financial service companies that give all available profits to charity and good causes.

EdenTree launched its first ethically screened fund back in 1988, which shows our dedication to responsible and sustainable investing.

Partnering with us means you are providing your clients with a suite of investment strategies designed to help address environmental and social challenges while also seeking to deliver competitive rates of return.

For more information on the The EdenTree Responsible & Sustainable Global Sustainable Government Bond, please contact your EdenTree relationship manager, or get in touch with us at:

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For Investment Professionals only.

The value of an investment and the income from it may go down as well as up and the investor may not get back the amount invested.

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