SARASIN RESPONSIBLE CORPORATE BOND FUND

SARASIN & PARTNERS

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ECONOMIC REVIEW

Sterling corporate bonds marginally outperformed government bonds over the first quarter of 2025. The UK economy faced increased prospects of stagnant growth in the period, with the labour market and wages showing some strain. This, along with continued rising inflation caused by higher food and energy prices, caused the economic outlook to diminish.

In addition, the ascendance of Donald Trump to the US presidency – and his threats of trade wars and tariffs – caused greater uncertainty in markets, as did a breakdown of the western consensus on the ongoing war in Ukraine. This caused governments to explore reallocations of resources from social programmes to increased defence spending.

With inflation remaining closer to the Bank of England's 2% target, although still 'sticky', and with weak economic signals, we do see interest rates falling over the year. Further turmoil is expected from a backlash to Trump's tariffs.

FUND REVIEW

The fund outperformed its benchmark in the quarter. This was mainly due to our modest risk-facing position heading into the new year and our selective profit-taking over the quarter as markets became more volatile and tariff uncertainties came to the fore. We maintained a neutral duration position (the portfolio's sensitivity to interest-rate movements) relative to the benchmark given the elevated levels of market uncertainty.

We continued our overweight positions in the utilities, real estate and asset-backed sectors while reducing some of our higher-risk financials positions. Instead, we preferred relatively safer supranational bonds as we looked to reduce risk in the near term.

FUND TRANSACTIONS

We continued to favour having slightly more risk in the fund compared with its benchmark and believed corporate bonds would remain attractive given pension fund demand, slow new issuance and flows into the asset class. That said, given market uncertainty, we reduced some of our higher-risk positions as valuations remained stretched on a historical basis.

We sold several non-GBP denominated bonds, including Brookfield Renewable Partners, TenneT and Verbund. We also saw our long-held emerging markets position in Vena Energy mature. In financials, we rotated some of our more subordinated bond holdings into more senior names to reduce the level of risk in the fund.

OUTLOOK

We think market uncertainty will continue. The slowing inflation momentum we saw over 2024 has waned. The trade war instigated by the US is sure to result in retaliatory tariffs in the coming months. The result is an increasing probability of recessions in the US, Europe and UK.

We believe it is prudent to remain conservative in our higher-risk positions. We are switching to higher-quality bonds, where we see value. We are reducing positions that would be more adversely impacted by tariffs, economic slowdown and fiscal reallocation such as benefit cuts and government efficiency savings. We continue to believe that there is value in sterling bonds in the short term, especially versus US dollar and euro bonds. All-in yields (the yield considering both the underlying government benchmark and the yield for credit risk) for high-quality bonds remain historically attractive. However, we believe the fund is well-positioned to withstand possible weakness in credit markets and take advantage of opportunities if and when the tariff-related shocks dissipate.

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