Global Strategic Bond Fund

▶ Core. Nimble. Proven.

December 2024 Commentary

ISIN for Class D Acc USD: IE000H9BC817 | ISIN for Class D Inc GBP hedged: IE000TEXPBZ5

MARKETING COMMUNICATION

Our investment approach

- Actively managed, core global bond portfolio focused on developed market liquid issuers, in hard currency.
- Nimble decision-making driven by valuations, fundamentals and technicals.
- Alpha generation through relative value, duration and credit selection.

Portfolio Management Team

Alex Ralph

Co-portfolio Manager

25 years in the industry

David Roberts

Co-portfolio Manager

40 years in the industry

What do we mean core and nimble? Inside, we share the fund's return drivers, portfolio positioning and put the spotlight on a bond bought/sold.

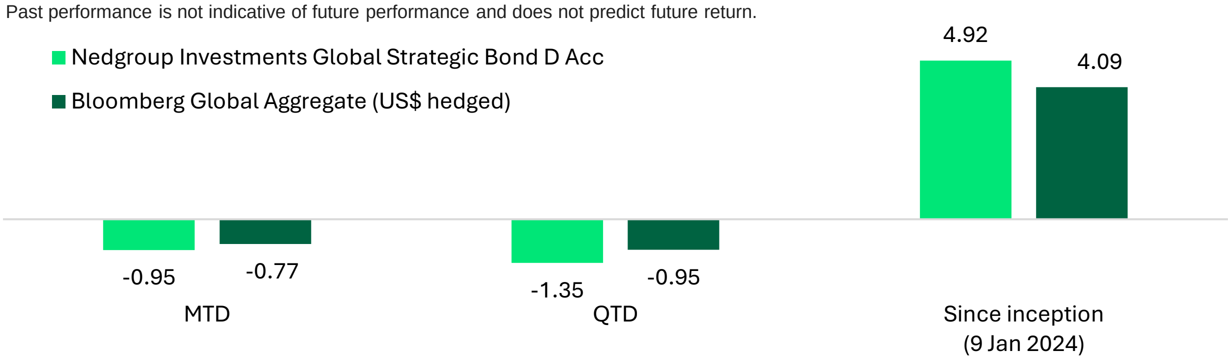
Performance and markets

Bond yields across most of the G7 reached year-to-date highs during December. Economic data was mixed once again, and central bank rhetoric shifted to fewer rate cuts for 2025 than previously expected. Investors overreacted, and as the year ended with markets pricing in fewer rate cuts than the Fed or Bank of England anticipated, the rise in yields meant negative total returns for Bloomberg Global Aggregate and the fund. Notably, the move above 4.5% in US 10-year yields signalled an opportunity to increase fund duration. We extended our duration close to 6.5 years, the longest since the fund's inception launch.

Credit markets showed some vulnerability towards month-end as spreads widened a little in European and dollar investment grade spreads. Market concerns over pared back rate cuts prevented the usual Santa rally. There were some pockets of strength in higher-yielding credit.

Fund performance

Past performance is not indicative of future performance and does not predict future return.



Fund returns are in US$ based on Class D Accumulation. Bloomberg Global Aggregate Total Return Index (hedged to US$). Source: Morningstar

Key return drivers

Over the month, the fund returned -0.95%, and Bloomberg Global Aggregate (US$ hedged), -0.77%. With China domestic bonds now a 10% position within the Global Aggregate index, the absence of China in the fund drove the relative return.

Given our mandate to offer investors bond-like returns, our focus remains on developed market bonds and hard currency. Consequently, we will not invest in China.

The excess return has been attributed roughly as follows using a top-down methodology:

Total excess return for the month: -19bps		
Contribution		**Positioning comments**
Duration	0bps	• Started short vs Bloomberg Global Aggregate, then added rate risk during the sell-off in developed markets. • On balance, neutral contribution given yields continued to rise slightly after we added.
Curve	5bps	• US and European curves steepened around 5bps on the month. • We remain heavily biased to shorter maturities.
Geography	-30bps	• We made small gains from Australian bonds, reducing our short in Canada and German bonds. • However, the gains were overshadowed by a structural zero weight to China where bonds hit new highs.
Asset allocation	4 bps	• Cash credit spreads drifted into year end to finish flat on the month. Carry on credit allocation contributed to performance.
Credit sector/ security selection:	2 bps	• The fund benefited from a small overweight to sterling credit, high yield stock selection including new issue participation like Iron Mountain.

Positioning recap and outlook

Total portfolio: Yield = 5.2% (% exc. futures), Duration = 6.4 years, ESG rating: AA

Rates (weight = 27.8% (64.2% inc. futures), yield = 4.4%, duration = 3.2 years)

Positioning in sovereign bonds	Fund	Expected fund range	Index
	27.8% (64.2% inc. futures)	**30% - 40%**	**53%**
Investment perspectives	**Valuations[3]** Cheap with yields well above inflation.	**Fundamentals** Mixed with fiscal uncertainty ahead.	**Technicals** Higher supply offset by light positioning.

- Bonds yields rose as investors eye fiscal expansion in 2025 and demand higher term premiums as compensation.
- The Fed now expects only two cuts, down from four, however, the market has moved to price in just one.

Contribution data and positioning information as of 31 December 2024. Yield shown is yield to worst. Source: Nedgroup Investments

Credit (IG: weight = 49.9%, yield= 5.4%, duration = 5.0 years)
(HY: weight = 19.3%, yield= 6.8%, duration = 3.3 years)

Positioning in sovereign bonds	Fund	Expected fund range	Index
	Investment grade: 49.9%	**20% - 60%**	**19%***
	High yield: 19.3%	**20% - 30%**	**0%**
Investment perspectives	**Valuations** Expensive with sterling credit now at post financial crises tights.	**Fundamentals** Deteriorating interest rate cover but overall solid.	**Technicals** Strong inflows and lower supply volumes generating supporting price action.

*"Pure" IG credit. Add in Structured, Agency and EM and the index has 47%

- Some of our higher beta holdings outperformed as spread compression cushioned the underlying government yield rise.
- Credit curves flattened a couple of basis points as markets began to price out rate cuts.
- Sterling investment grade outperformed as euro and dollar investment grade spreads drifted a little into year-end concerns over inflation.

Portfolio changes and where next

We ended the year with the fund's duration close to 6.5 years, focused entirely on North America and Europe inc. UK. This was the first time we were slightly "long" on duration risk since launch. With modest economic disappointment and a couple of cuts from the Fed, could we be looking at double-digit returns from core bonds in 2025?

We used the credit curve flattening during the month to cut our credit duration by quarter of a year. After a large spread rally over the year, valuations look stretched, particularly at the long end. Shorter-dated credit offers better protection against potential market weakness, and we plan to cut credit duration further in the coming weeks.

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Spotlight on an issuer bought: Forvia

- Forvia is a high yield French auto parts issuer and a global supplier to OEMs, with a significant European business.
- **Valuation:** Spreads have been weaker due to depressed global auto demand, but the short-dated nature of the bond provided attractive break-evens and align with our preference to cut credit duration.
- **Fundamentals:**. Guidance was cut earlier in the year but Q3 results beat market expectations, affirming FY24 guidance. Margins remain supportive and deleveraging continues.
- **Technicals**: The market is starting to move away from a structural underweight to autos.

What to watch out for next month

Rates: Will cheap valuations, slowing economies and above inflation returns lure investors to bonds? Or will fear of Trumponomics push yields higher still in the short term?.	**Credit:** Technicals usually drive credit markets tighter in the new year. Will supply disappoint and continue to provide a strong technical back drop?

Contribution data and positioning information as of 31 December 2024. Yield shown is yield to worst. Source: Nedgroup Investments

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