Global Strategic Bond Fund

▶ Core. Nimble. Proven.

February 2025 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

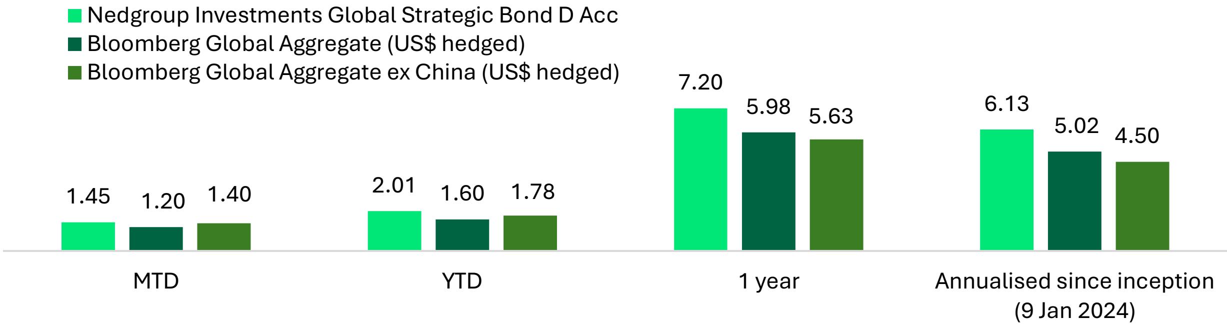
Two months into the new US Presidency and markets continue to be volatile. US Treasuries were the best performing major rates market as economic data deteriorates and the prospect of bank regulatory changes encourages further purchases. Japan, once again lagged behind. Our mandate precludes Chinese local currency bonds, thankfully, as yields rose with authorities scrambling to provide stimulus ahead of Trump tariffs.

Credit markets were dull by comparison. We continued to seek out new issue opportunities and gently rotated to better quality, shorter maturities as value dissipated further from longer, lower quality debt. Our positive liquidity bias allows us to be nimble in that respect.

Overall, we were in the right sectors both from an absolute and relative perspective. Geographic and curve allocation were major contributors to performance.

Fund performance

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



Data as at 28 Feb 2025. Fund returns are in US$ based on Class D Accumulation. Bloomberg Global Aggregate Total Return Index (hedged to US$) and Bloomberg Global Aggregate ex China Total Return Index (hedged to US$). Source: Morningstar, Bloomberg

Key return drivers

Over the month, the fund returned 1.45%, and Bloomberg Global Aggregate (US$ hedged), 1.20%. The fund was overweight US bonds, contributing positively as yields hit 3-month lows.

We were also marginally long in Europe with a focus on 5-10 year bonds, which added value as curves steepened in response to proposed defence spending.

The excess return has been attributed vs Bloomberg Global Agg ex China using a top-down methodology:

Total excess return for the month (vs Bloomberg Global Agg ex China): +5bps		
Contribution		**Positioning comments**
Duration	-3bps	• Strictly speaking we were never "long" index (although the curve position below was our directional proxy)
Curve	0bps	• We gained from range trading US and EU curve although over the month curves were little changed as reflected by curve attribution.
Geography	+4bps	• Our zero allocation to Japan and continued favouring to the US benefitted the fund.
Asset allocation	+3bps	• Being overweight European credit added value, with spreads to US now near zero based on market indices.
Credit sector/ security selection:	+1bps	• Overall credit selection contributed to performance driven by decent new issue selection and company results. Ziggo was the exception; bonds fell 2% on weak Q4 results.

Positioning recap and outlook

Total portfolio: Yield = 4.8% (% exc. futures), Duration = 5.6 years, ESG rating: AA

Rates (weight = 33.2% (61.0% inc. futures), yield = 4.3%, duration = 2.7 years)

Positioning in sovereign bonds	Fund	Expected fund range	Index
	33.2% (61.0% inc. futures)	**30% - 40%**	**53%**
Investment perspectives	**Valuations** US yields are still +60bps higher than in September, but only modestly cheap.	**Fundamentals** Good, improving as G7 data slows – watching consumer confidence closely.	**Technicals** Less positive, evidence suggests investors are moving longer after the recent Fed meeting.

- Sovereign bonds have more than regained year end levels, moving from very cheap to a little cheap.
- Markets are moving back to price in a series of rate cuts.
- Volatility remains elevated; the market is falling under the spell of the Oval Office.

Contribution data and positioning information as of 28 Feb 2025. Yield shown is yield to worst. Source: Nedgroup Investments. Valuations are based on a medium-term outlook. For government bonds, this is determined by market returns (beta) relative to inflation/inflation expectations and real growth. For corporates, this is determined by adjusting expected excess returns for risk (default and volatility). Valuation based strategic positioning may be adjusted for shorter term technical or fundamental economic factors.

NEDGROUP INVESTMENTS

Credit (IG: weight = 45.6%, yield= 5.2%, duration = 4.8 years)
(HY: weight = 16.4%, yield= 6.4%, duration = 2.6 years)

Positioning in credit	Fund	Expected fund range	Index
	Investment grade: 45.6%	20% - 60%	19%*
	High yield: 16.4%	20% - 30%	0%
Investment perspectives	**Valuations** US credit valuations have marginally improved after a small sell-off but still remain expensive.	**Fundamentals** Corporate results have demonstrated continue balance sheet strength. Increased LBO and M&A activity – especially in the US, could increase leverage.	**Technicals** Record issuance for February but demand continues. New issue discounts have returned to entice investors.

- Supported by technicals, credit spreads reached multi-decade tights by mid-month. The broad risk-off sentiment drove spreads wider in the last week, particularly in the US, on the back of weakening economic data. US high yield spreads widened to levels not seen since October last year.
- Our overweight in European credit outperformed as spreads compressed to their US counterparts. We subsequently cut our exposure to Europe as valuations no longer justify such a large weighting. Some of that was recycled into US short dated credit which had underperformed.

Portfolio changes and where next

We continue to reduce credit exposure. The sweet spot of the last few months in investment grade has been high beta BBB's. Compression has been large and we feel it prudent to take profits and recycle into higher rated companies or government bonds. A continued reversal of the "trump trade" could threaten consumer confidence and quickly turn into a short-term market rout. Yields are getting close to our year end expectation so we have reduced duration a little. It is impossible not to expect further volatility until politics takes a back seat to economics. That may take some time.

Spotlight on an issuer sold: Burberry

Burberry, a British luxury fashion house, has been plagued by the significant global slowdown in the luxury sector.

- **Fundamentals:** A profit warning, change of CEO and Moody's outlook revision to negative drove the equity to new lows. However, by the Q3 update in January, green shoots were emerging with a sales beat and improving brand desirability metrics.
- **Valuation:** Spreads continued to widen after the profit warning. At the time, we did not see the need to exit, as we believed management were taking the right steps to protect the balance sheet. Since then, spreads have rallied significantly and we decided to take profit, aligning with our broader strategic view of reducing spread duration.
- **Technicals**: We took a position after the initial profit warning, as we thought the pickup on offer for the rating was sufficient. Investors continued to short, and spreads came under further pressure. However, technicals soon reversed with luxury fashion demand most likely bottoming out.

What to watch out for next month

Rates:	Credit:
Will US government bonds continue to outperform? Job market momentum and consumer confidence are key. Rapidly changing European defence plans could increase volatility further.	Is there momentum behind the decompression? Spreads are widening but slowly. Can continued political chaos finally break the market dynamic?

*"Pure" IG credit. Add in Structured, Agency and EM and the index has 47%. Contribution data and positioning information as of 28 Feb 2025. Yield shown is yield to worst. Source: Nedgroup Investments. Valuations are based on a medium-term outlook. For government bonds, this is determined by market returns (beta) relative to inflation/inflation expectations and real growth. For corporates, this is determined by adjusting expected excess returns for risk (default and volatility). Valuation based strategic positioning may be adjusted for shorter term technical or fundamental economic factors.

MONTHLY PORTFOLIO UPDATE

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