Global Strategic Bond Fund

► Core. Nimble. Proven.

January 2025 Commentary

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

MARKETING COMMUNICATION

MONTHLY PORTFOLIO UPDATE

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.

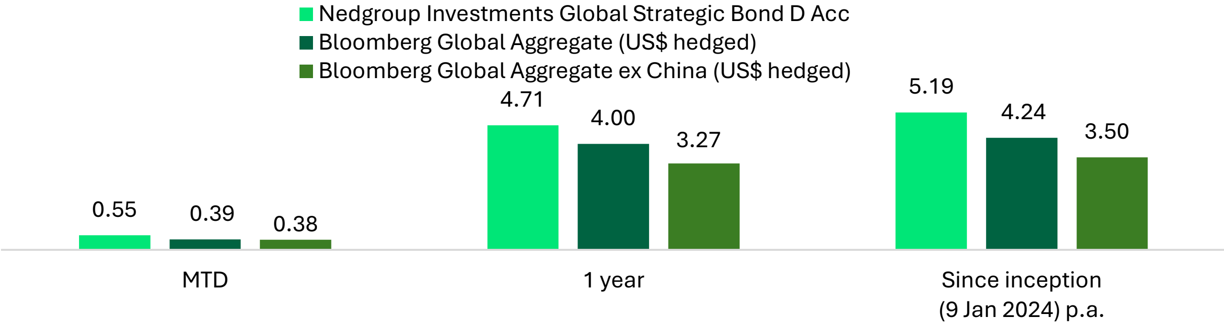
Performance and markets

Market and fund level monthly returns were lacklustre, with a little over 0.5% after fees, close to the monthly "carry". We were just under 0.2% ahead of the Bloomberg Global Aggregate Index. Intra-month volatility was very high, which helped us add some value. The primary cause of this volatility was Donald Trump and the uncertainty around tariffs. Would they lead to inflation? In the US, the evidence suggests yes, but it could be deflationary in other parts of the world. We shall see.

The Bank of Japan raised rates as expected. We remain zero-weighted, which proved to be the correct call. We added some small trading gains by adding then reducing duration to capture the volatility. We held up relatively well amid the volatility surrounding UK sovereign risk, though on the flipside, we didn't benefit from the strong rebound in UK rates and credit towards the end of the month.

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$) and Bloomberg Global Aggregate ex China Total Return Index (hedged to US$). Source: Morningstar, Bloomberg

Key return drivers

Over the month, the fund returned 0.55%, Bloomberg Global Aggregate (US$ hedged), 0.39% and Bloomberg Global Aggregate ex China (US$ hedged), 0.38%.

With China domestic bonds now a meaningful position within the Global Aggregate index and 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 local bonds.

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): +17bps		
Contribution		**Positioning comments**
Duration	0bps	• Core yields were little changed on the month.
Curve	3bps	• Modest steepening of the US curve, we remain weighted to short maturities
Geography	6bps	• A gain on Japan and small loss on Canada, where we had cut our short and gained from re entering at better levels
Asset allocation	6bps	• Spreads were little changed, positive carry. Our O/W in European credit performed well to the US. We lacked sterling exposure which outperformed.
Credit sector/ security selection:	2bps	• Overall positive. We owned and sold Edison Electric which suffered from California wildfire association. Gains elsewhere compensated as Burberry rebounded and auto sector outperformed..

Positioning recap and outlook

Total portfolio: Yield = 4.9% (% exc. futures), Duration = 6.0 years, ESG rating: AA

Rates (weight = 29.2% (64.3% inc. futures), yield = 4.4%, duration = 3.2 years)

Positioning in sovereign bonds	Fund	Expected fund range	Index
	29.2% (64.3% inc. futures)	**30% - 40%**	**53%**
Investment perspectives	**Valuations[3]** Still cheap, no change	**Fundamentals** Good, improving as G7 data slows	**Technicals** Less positive, many shorts were cut in the mid-January sell off

- It's not all about the US, however, Trump is key for now.
- Even with tariffs, PCE, the Fed's preferred measure of inflation, is expected to fall to 2.5% from 2.8% (consensus for 2025).
- At 4.5%, therefore, US Treasuries yields look very good value. However, there's a lot in the price.

Contribution data and positioning information as of 31 January 2025. Yield shown is yield to worst. Source: Nedgroup Investments

Credit (IG: weight = 46.2%, yield= 5.4%, duration = 4.8 years)
(HY: weight = 16.7%, yield= 6.56%, duration = 2.8 years)

Positioning in sovereign bonds	Fund	Expected fund range	Index
	Investment grade: 46.2%	**20% - 60%**	**19%***
	High yield: 16.7%	**20% - 30%**	**0%**
Investment perspectives	**Valuations** Expensive. Little opportunity for spread compression.	**Fundamentals** European balance sheets should improve with falling interest rates.US could get worse as animal spirits unfold.	**Technicals** Lower than expected issuance and expect a large amount of cash returned to bondholders this month. Demand remains relentless, underpinning credit performance.

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

- Despite the cost of Edison, overall credit selection helped performance. The recovery of Burberry spreads and outperformance of the autos sector was key contributors.
- UK credit has performed well in the last 3 months and is now hovering near the tightest levels since the GFC, despite the volatility in UK sovereign. The main drivers that pushed sovereign yields to multi-decade highs are unfavourable for credit and we believe UK credit is susceptible to a correction. As a global fund with a value-driven process, we therefore have low exposure to UK financials.

Portfolio changes and where next

Little has changed either in the portfolio or market outlook. Core bonds remain cheap, and we are maintaining a longer duration than at any time since launch. The consensus is that tariffs will occur but the potential rise in US CPI will not be enough to counter downward forces/base effects. Both the ECB and MPC have suggested that inflation may fall in their jurisdictions if unilateral sanctions are imposed. We trimmed our credit allocation to below 65% as valuations remain stretched. Credit is susceptible to a correction as momentum becomes further reliant on the maintenance of strong demand.

Spotlight on an issuer sold: Edison International (EIX)

- EIX's (Californian regulated utility company) wires have been accused of starting the Eaton Fire. The market agrees with the shares down 33%.
- **Fundamentals:**. The 2017-18 fires led to the creation of the $21bn AB1054 wildfire fund, with Edison potentially exposed to around $4bn if found liable. We expect the fund to be wiped out, possibly leaving EIX responsible for additional claims. The ongoing fire risk and lack of clear plan to recapitalise the fund increases bondholder risk.
- **Valuation:** Spreads immediately widened following the start of the fire and we exited our position with a small fund impact to manage near-term risk and increased political uncertainty.
- **Technicals**: At the group level, there is a risk of the dividend being suspended which would quickly erode credit metrics with $7bn of debt to finance.

What to watch out for next month

Rates:	Credit:
Tariffs, the response from countries impacted and the central bank reaction will continue to drive volatility. This creates attendant opportunity.	AI-led sell-off or tariff concerns did not create a sustained credit sell-off but nervousness is building over valuations. We await a trigger.

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

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