Global Strategic Bond Fund

NEDGROUP INVESTMENTS

▶ Core. Nimble. Proven.

May 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

35 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.

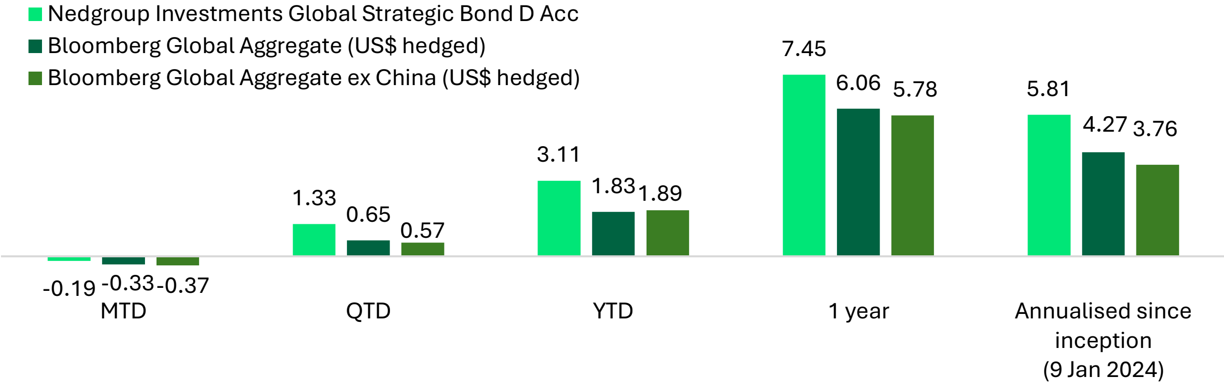
Performance and markets

Tariffs continued to dominate headlines but concerns about fiscal deficits pushed yields higher and briefly shifted focus away from the "TACO" (Trump Always Chickens Out) narrative. Long-end government bond investors had little to cheer about - 30-year US yields climbed to their highest level since 2007, while Japan also saw record highs. The UK wasn't immune either. However, supportive sentiment around issuance helped the bonds recover.

Our preference for the short-end continued to offer protection, allowing us to take advantage of market volatility and generate incremental alpha. Credit spreads grinded tighter against a more benign credit backdrop, contributing to relative outperformance. However, the broader rise in government bond yields ultimately weighed on performance, resulting in slightly negative total returns.

Fund performance

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



Data as at 31 May 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

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Key return drivers

Over the month, the fund returned -0.19%, Bloomberg Global Aggregate (US$ hedged), -0.33% and Bloomberg Global Aggregate ex China (US$ hedged), -0.37%.

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): +18bps		
Contribution		**Positioning comments**
Duration	+0bps	• We incrementally added duration as yields rose to levels last seen in February, ending the month neutral after a 15bp rally.
Curve	+4bps	• While curves were close to flat on the month, increased volatility enabled us to trade both US and German curves; we reduced our relative overweight as 5-30 curves surpassed 1% but before reversing, as they flattened back towards 0.9%, to lock in profit.
Geography	+2bps	• Our Japan underweight was the biggest contributor. We benefited from spread compression in Australia before switching into New Zealand - which outperformed the US. • Italy and Canada performed well - we had no exposure. We were slightly overweight the US and UK as yields rose over 20bps on the month.
Asset allocation	+9bps	• The risk-on environment led to spread tightening with many names trading through pre-liberation day levels. We had increased our credit beta which further benefited although Dollar credit did slightly outperform Euro, whilst Sterling lagged.
Credit sector/ security selection:	+3bps	• The fund benefited from rumours of Telefonica buying out Liberty Global's 50% stake in Virgin Media. • In addition, new issues and secondary market trading supported performance.

Positioning recap and outlook

Total portfolio: Yield = 5.1% (% exc. futures), Duration = 5.7 years, ESG rating: AA

Rates (weight = 35.0% (56.6% inc. futures), yield = 4.2%, duration = 3.7 years)

Positioning in sovereign bonds	**Fund**	**Expected fund range**	**Index**
	35.0% (57% inc. futures)	**30% - 40%**	**53%**
Investment perspectives	**Valuations[3]** Softening tariff policy will not be enough to prevent stagflation.	**Fundamentals** Labour market data has started to crack across both sides of the Atlantic. GDP has been blurred by tariff front-running.	**Technicals** The DMO and the BoJ have hinted they will support supply at the long end.

- Core bond markets will continue to be volatile.
- Central banks are reluctant to cut much more without hard data deteriorating.
- Fiscal concerns will increasingly put pressure on yields.

Contribution data and positioning information as of 31 May 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.

Credit (IG: weight = 47.5%, yield= 5.5%, duration = 4.8 years)
(HY: weight = 14.7%, yield= 7.0%, duration = 2.9 years)

Positioning in corporate bonds	Fund	Expected fund range	Index
	Investment grade: 47.5%	20% - 60%	19%*
	High yield: 14.7	20% - 30%	0%
Investment perspectives	**Valuations** Becoming stretched once more. Whilst not quite at the cyclical tights of mid-February, there is little in the way of possible economic deterioration priced into credit. US high yield, in particular, trades expensively.	**Fundamentals** Signs of possible divergence between geographic regions as interest rate cuts feed through to European company balance sheets.	**Technicals** Supportive technicals that had emerged from investors being caught short credit ahead of the tariff U-turn has now abated. More neutral positioning should allow data to drive market direction from here.

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

- Tighter credit conditions in the US will contribute to deteriorating credit fundamentals and we expect tariff uncertainty to start impacting incoming data.
- With little slowdown risk priced into US credit, we have trimmed our overall credit exposure once more. Whilst maintaining a defensive bias, we do find some value, however, in short dated high beta credit.

Portfolio changes and where next

Any further compression in credit spreads will prompt us to continue trimming credit exposure as valuations drift further away from reflecting slowdown risks – particularly in the US. Confidence continues to be depressed across corporates, and while delays to investment projects are supportive for balance sheets, we believe deteriorating US data will increasingly drive credit spread direction over the summer.

We still view bonds as offering good long-term value across most scenarios. However, given the market's tendency to overreact to news flow, we're avoiding large directional positions. Instead, we maintain a portfolio of smaller, often tactical positions. Strategically, we still like duration and credit risk, but for now, it's more of the same: monitoring data closely for signs of sharper deterioration and use politics to take advantage of outsized market moves.

Spotlight on an issuer sold: CBR Fashion

CBR Fashion is a high yield, pan-European wholesaler and retailer of women's fashion.

- **Fundamentals:** CBR's results have demonstrated strong momentum and the business continues to perform well. Receding freight rates should provide a tailwind and pre-order volumes are favourable.
- **Valuation:** The strong performance is firmly reflected in spreads and the post-liberation day rally saw spreads back to February tights and the credit outperform peers.
- **Technicals: I**nvestor positioning was light and the resulting reversal was a catalyst for beta compression that has seen single-B outperformance since April in Euro terms. Single Bs still lag BBs, but CBR's relative outperformance provided a good opportunity to take profits.

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

What to watch out for next month

Rates:

Trump's flip-flopping and the associated intra-market volatility will continue to create opportunities. Markets are far from pricing a recession, but the data vacuum could turn more negative.

June central bank meetings are likely uneventful, the ECB will cut with the Fed, BoJ and BoE on hold. All will emphasise data dependency. We will be watching the data and will avoid large directional bets.

Credit:

We questioned last month whether technicals could maintain the positive backdrop within credit. The answer was a resounding yes. Time is running out however as positioning is now neutral and issuance is still strong. Expect data to drive spreads in the coming month.

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