BUTTERFIELD

# Fund Review

Butterfield Asset Management Limited

# Select Fund: Global Fixed Income Class

Quarter 3 2024

## Objective

To maximise total return through income and capital gains by investing in medium to high-grade US dollar-denominated debt securities with a medium/long-term maturity profile and some top performing mutual funds to provide attractive opportunities for capital growth.

## Investment policy

The Fund will target a weighted average duration of six years and enhance returns through sector and credit diversification of securities and funds. Fund investments will include a range of top-performing offshore fixed income mutual funds in targeted areas.

## Investment process

Important considerations for our fixed income investment choices are liquidity and safety of principal. Our philosophy is to focus on all elements of total return to incrementally outperform the benchmark (which excludes fees) on a consistent basis.

## Key facts as at 30 September 2024

| | |
|---|---|
| Currency | USD |
| Valuation | Weekly |
| Dealings | Friday |
| Front end fee | None |
| Units available | Accumulation |
| Identifier | BUTSLFX BH |
| Fiscal year end | 30 June |
| Minimum investment | USD 10,000 |
| Total expense ratio | 1.39% |
| Size of fund (millions) | USD 38.4 |
| NAV per share | USD 22.00 |

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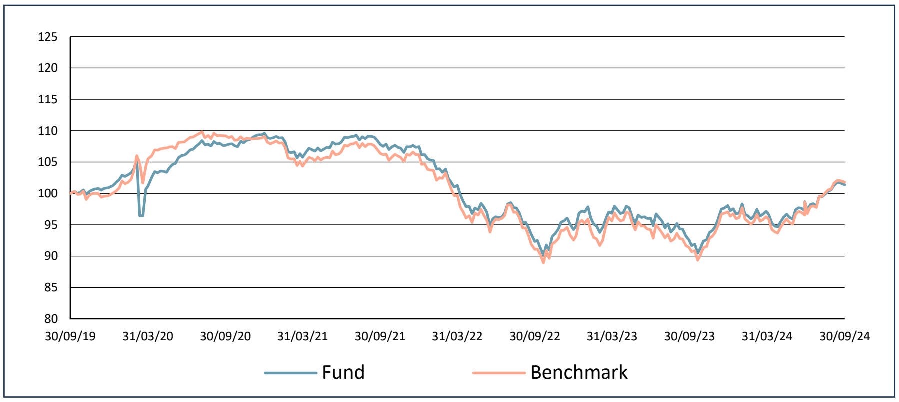
## Performance chart




## Average annual compound returns

| | QTD | YTD | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|---|---|
| Fund | 4.27% | 3.38% | 9.56% | -2.02% | 0.27% | 1.82% |
| Benchmark | 5.50% | 4.90% | 11.41% | -1.45% | 0.36% | 2.05% |

## Fund review

The Global Fixed Income Class produced a return of 4.27%, net of fees in Q3 which was below the 5.50% return for the fund's benchmark. The fund's underperformance was due to an overweight in U.S. inflation-linked assets, as inflation expectations dropped significantly throughout the quarter, alongside a tactical decision to remain underweight in duration as U.S. government bond yields fell more sharply than expected based on inflation and macroeconomic conditions. Also to mitigate convexity risk, we maintained a shorter duration relative to the benchmark. The fund's corporate credit holdings saw no losses, and we continue to adopt a defensive stance, taking advantage of favorable carry opportunities.

The third quarter of 2024 brought significant volatility to fixed income markets, driven by global shifts in central bank policies and economic conditions. In the U.S., the 2-year/10-year yield curve returned to positive territory for the first time in two years, a significant signal of changing market dynamics. The Federal Reserve took a bold step by delivering a preemptive 50 basis point (bps) rate cut despite strong economic growth, surprising markets that had expected a more gradual easing. This "insurance" cut was intended to stabilize the economy amid mounting uncertainties. Even with solid Q3 growth, reflected in the Atlanta Fed's GDPNow forecast of +3.08%, the market is pricing in an additional 100bps of rate cuts by year-end as inflation continues to ease.

In addition, labor market conditions in the U.S. softened, with the unemployment rate rising to 4.3%. While temporary factors such as weather-related disruptions and immigration influenced the numbers, the broader trend indicates weakening employment. This has raised concerns over consumer spending, which could weigh on the economic outlook in the coming months. U.S. bond markets reacted strongly to these developments, with the 2-Year Treasury yield dropping by 120bps and the 10-Year Treasury

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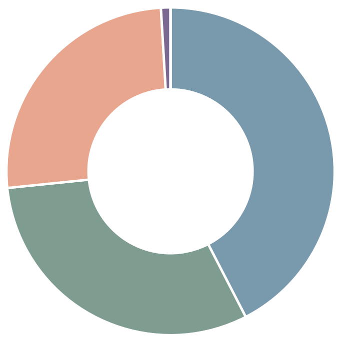
yield declining to 3.75%. Inflation-protected securities (TIPS) underperformed nominal Treasuries as inflation fears receded and attention shifted toward broader economic risks.

Globally, central banks adopted more accommodative policies to address slowing growth. The European Central Bank, Bank of England, and Bank of Canada all reduced rates as economic conditions deteriorated, particularly in Europe where German Bund yields fell sharply, reflecting concerns over the health of Germany's economy. In Asia, the People's Bank of China introduced its largest stimulus package since the pandemic, including key rate cuts and reductions in reserve requirements for banks. However, doubts remain about whether these measures will be enough to spur growth, given persistent weak credit demand and subdued global trade.

Looking ahead, the final quarter of 2024 will likely see heightened volatility driven by the U.S. election and continued global uncertainty. We remain cautious on U.S. interest rate duration risk, as the market has already priced in significant rate cuts, and further gains in short-dated U.S. Treasuries may be limited unless a recession materializes. While U.S. macroeconomic data remains relatively strong, we are positioning for potential risks, maintaining a selective overweight on inflation protection and a tactical approach to credit risk as global liquidity rises.

## Asset allocation



| | |
|---|---|
| Government | 42.4% |
| Corporate | 31.0% |
| Securitised/Collateralised | 25.7% |
| Cash | 0.9% |

## Top 10 holdings

| | | |
|---|---|---|
| 1 | US TREASURY N/B 1.5 15/02/2030 | 5.3% |
| 2 | US TREASURY N/B 1.25 30/04/2028 | 4.2% |
| 3 | US TREASURY N/B .875 15/11/2030 | 4.2% |
| 4 | ANGLO AMERICAN CAPITAL 4.875 14/05/2025 | 4.0% |
| 5 | US TREASURY N/B 4.25 15/03/2027 | 4.0% |
| 6 | BANK OF AMERICA CORP 3.95 21/04/2025 | 3.9% |
| 7 | RENAISSANCERE FINANCE 3.45 01/07/2027 | 3.8% |
| 8 | US TREASURY N/B 1.125 15/05/2040 | 3.4% |
| 9 | US TREASURY N/B 0.625 15/05/2030 | 3.3% |
| 10 | US TREASURY N/B 1.375 15/08/2050 | 2.9% |

## Benchmark composition

Merrill Lynch US Corp and Government 5-10 year A rated and above.

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