Fund Review

Butterfield Asset Management Limited

US Dollar Bond Fund: Class A & B

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 short to medium-term maturity profile.

Investment policy

The Fund will target a weighted average duration of 2.5 years and will enhance returns through sector and credit diversification.

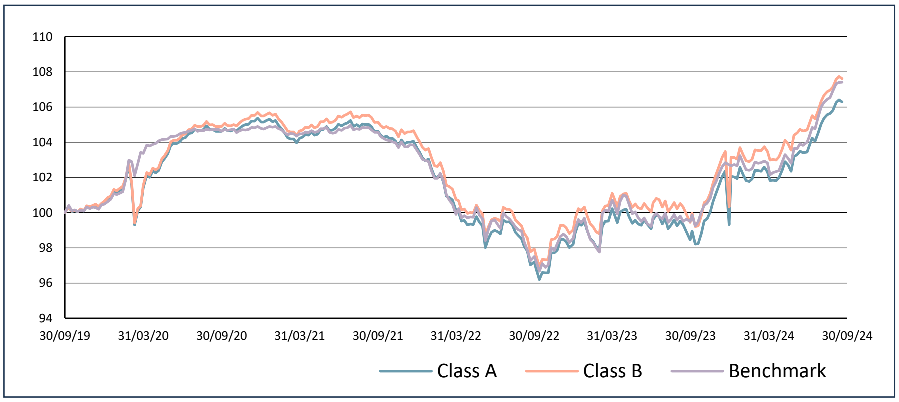
Investment process

The primary considerations for our fixed income investment choices are liquidity and safety of principal. Our philosophy is to focus on all elements of yield enhancement in order to incrementally outperform the benchmark on a consistent basis.

Key facts as at 30 September 2024

Currency	USD
Valuation	Weekly
Dealings	Wednesday
Front end fee	None
Units available	Income distribution Accumulating
Identifier	Class A - BUTUSBI BH Class B - BUTUSBB BH
Fiscal year end	30 June
Minimum investment	Class A - USD 10,000 Class B - USD 1,000,000
Total expense ratio	Class A - 0.76% Class B - 0.51%
NAV per share - Class A	USD 10.478
NAV per share - Class B	USD 10.692
Size of fund (millions)	USD 129.5

Performance chart (Class A & B)



Average annual compound returns (Class A & B)

	QTD	YTD	1 year	3 years	5 years	7 years	10 years
Class A	2.79%	3.82%	7.45%	0.53%	1.22%	1.53%	1.38%
Class B	2.85%	4.01%	7.71%	0.78%	1.48%	1.79%	1.63%
Index	3.45%	4.45%	7.81%	0.90%	1.44%	1.78%	1.67%

Fund review

The Class A shares of the Fund produced a return of +2.79% and Class B +2.85%, net of fees in Q3 which was below with the +3.45% return for the fund's benchmark. This underperformance was primarily driven by an overweight position in U.S. inflation protection, as inflation expectations collapsed over the quarter, coupled with a tactical underweight position in duration. The decline in U.S. government bond yields was more pronounced than inflation and macroeconomic trends suggest. Therefore to manage convexity risk, we maintained a shorter duration compared to the benchmark. There were no losses in the fund's corporate credit holdings, and we continue to maintain a defensive allocation, benefiting from attractive carry.

The third quarter of 2024 brought significant volatility to fixed income markets, driven by shifts in the yield curve and expectations for Federal Reserve policy changes. Notably, the 2-year/10-year U.S. yield curve returned to positive territory for the first time in two years. The Federal Reserve made a rare 50 basis point (bps) preemptive rate cut despite strong economic growth. This "insurance" cut caught markets by surprise, as the broader expectation was for a more gradual approach. Economic indicators, such as the Atlanta Fed's GDPNow forecast of +3.08% for Q3, reflect solid growth, but markets are now pricing in an additional 100bps of rate cuts by year-end as inflationary pressures continue to moderate.

Standard & Poor's combined Credit and Volatility rating

AA-f/S2

Class A MORNINGSTAR® ★★

Class B MORNINGSTAR® ★★

BUTTERFIELD

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In addition, the U.S. labor market shows further signs of softening, with the unemployment rate rising to 4.3%, highlighting concerns about the strength of consumer spending and the overall economic trajectory. While some distortions were caused by temporary factors like weather and immigration, the trend points to weakening employment conditions, which may affect broader economic activity moving forward.

U.S. bond markets experienced notable movements, with the 2-Year Treasury yield declining by 120bps—one of the steepest moves of the quarter—reflecting expectations of continued Fed rate cuts. Similarly, the 10-Year Treasury yield fell to 3.75%. Inflation-protected securities (TIPS) underperformed nominal Treasuries as concerns about inflation diminished, and attention shifted toward the potential for a broader economic slowdown.

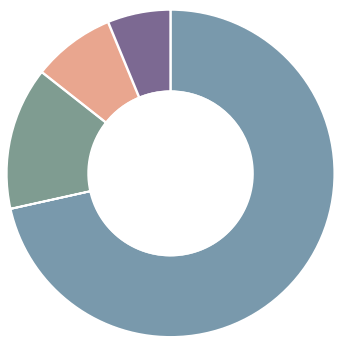
In credit markets, spreads tightened toward the end of the quarter as financial conditions eased. This decline in government bond yields contributed to a 0.64% drop in the 30-year fixed mortgage rate, settling at 6.69%. The reduction in rates spurred a resurgence in refinancing demand which led to the fund capturing substantial capital gains on select mortgage pools.

Looking ahead, the final quarter of 2024 is likely to be very volatile. While markets expect a further -200bps in US base rate cuts over the coming 12-months, we remain positioned for higher bond yields as U.S. macro data continues to improve and inflation remains sticky, because of this the Fed is likely to cut less than currently priced in. As a result we remain tactically underweight duration, overweight inflation protection, and have added a small amount of credit risk given supportive monetary policy. The upcoming U.S. election will dominate Q4, and potential volatility in the Middle East could create further market risks and opportunities to add alpha.

Average duration and volatility

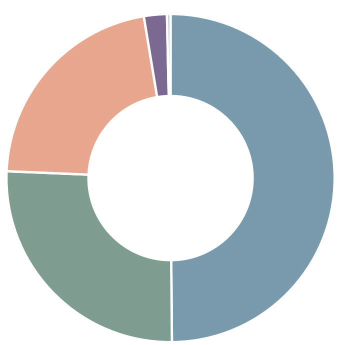
Duration	2.2 yrs
Volatility	2.11%

Credit ratings



AA	72%
A	14%
BBB	8%
AAA	6%

Sector breakdown



Treasury	49.9%
Corporate	25.8%
Securitised	21.7%
Supra/Sovereign	2.3%
Cash	0.3%

Benchmark composition

B of A Merrill Lynch 1-5 Yr US Gov/Corp AAA-A Rated.

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