Global Strategic Bond Fund

NEDGROUP INVESTMENTS

▶ Core. Nimble. Proven.

June 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.

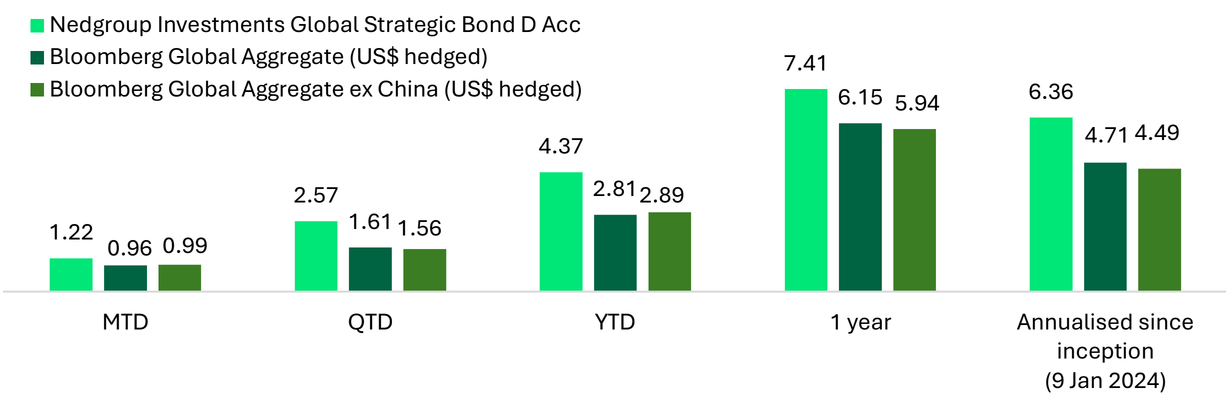
Performance and markets

The recent conflict between Iran and Israel, though short-lived, briefly shifted market focus away from tariffs. However, since "Liberation Day," markets — commodities, equities, and bonds — have each delivered their own challenges. Fortunately, the portfolio navigated the volatility well, outperforming the index and rising in value.

The US dollar had a moment of strength, reminding investors of its safe haven appeal. With oil prices settling back below $70/bbl, investor attention returned to the economic fundamentals. US data continues to soften, edging closer to stagnation. That backdrop supported bond markets, particularly US Treasuries. Meanwhile, Fed comments hinted that rate cuts could be on the table which meant most asset classes, including credit, ended the month in positive territory.

Fund performance

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



Data as at 30 June 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 1.22%, Bloomberg Global Aggregate (US$ hedged), 0.96% and Bloomberg Global Aggregate ex China (US$ hedged), 0.99%.

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): +23bps		
Contribution		**Positioning comments**
Duration	-10bps	• While the portfolio's lower than index overall duration detracted returns, given the market rallied, curve positioning was additive.
Curve	+10bps	• As US curves steepened back into "recessionary" territory, the fund benefitted. Most of the curve positioning was in Germany which was additive, but to a lesser extent than the US. We took profits as others started to jump on the bandwagon.
Geography	0bps	• We had a modest overweight to Germany; Bunds lagged a little as defence spending looked set to increase. • That was offset by tactically trading the US and an overweight to gilts based on relative value.
Asset allocation	+17bps	• Credit spreads ended the month tighter with strong excess returns. We remain conservatively positioned albeit overweight corporate credit compared with the global market
Credit sector/ security selection:	+6bps	• Sterling names outperformed, playing catch up to Europe and US. • Credit selection is just as much about avoiding the pitfalls. We did that this month through no exposure to Worldline or United group.

Positioning recap and outlook

Total portfolio: Yield = 5.0% (% exc. futures), Duration = 5.5 years, ESG rating: A

Rates (weight = 33.0% (37.4% inc. futures), yield = 4.1%, duration = 4.0 years)

Positioning in sovereign bonds	**Fund**	**Expected fund range**	**Index**
	33.0% (37.4% inc. futures)	**30% - 40%**	**53%**
Investment perspectives	**Valuation** Yields remain above long run inflation and are worth owning; Short to medium term depends on fundamentals.	**Fundamentals** Will we see US stagflation and where will tariffs settle? If the Fed feel they can cut, rates and risk rally, and curves should steepen.	**Technicals** Less US supply and more from Europe, however, demand favours the latter for now.

- Yields are volatile but increasingly range bound.
- Oil at around $60/bbl makes life for a central banker easier than oil at $100/bbl.
- More of the same seems likely; modest positive total returns.

Contribution data and positioning information as of 30 June 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 = 48.7%, yield= 5.3%, duration = 4.8 years)
(HY: weight = 16.8%, yield= 6.6%, duration = 2.8 years)

Positioning in corporate bonds	Fund	Expected fund range	Index
	Investment grade: 48.7%	**20% - 60%**	**19%***
	High yield: 16.8%	**20% - 30%**	**0%**
Investment perspectives	**Valuations** With credit pricing in a benign environment, there is little point chasing spread compression. It's all about the carry.	**Fundamentals** Balance sheets remain healthy overall, but pockets of weakness are developing – especially within US consumer-facing companies.	**Technicals** Within Europe, we saw the second largest IG issuance on record and the largest ever in HY. Strong inflows continue into the asset class to help absorb the new issues. Summer issuance expected to slow.

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

- With significant flows into European credit, including from Asia, Europe looks set to maintain its superior technical backdrop relative to the US.
- We maintain our barbell approach of a defensive core with short dated higher-yielding assets to maintain a decent level of carry within the portfolio. We have increased our sector weighting to defensive sectors such as utilities and telcos to take advantage of the lack of cyclical premium in credit.

Portfolio changes and where next

Bond yields continue to offer decent long-term value. Interest rate curves have steepened, as markets look beyond short-term inflation spikes — particularly in the US — and increasingly expect central banks to do more than necessary. Ironically, that could fuel inflation further down the line, which partly explains the steepening.

Falling cash rates make bonds more attractive and although much of the credit universe seems rich to us, there are plenty of buyers looking to enhance their yield in any way possible; there are worse places than public, liquid credit markets for yield hunters.

That said, we won't chase credit. That almost always ends badly. Rather, we expect bouts of volatility to remain a key theme albeit perhaps not as severe as we saw in April. These periods of dislocation should create opportunities for active managers like us to outperform.

Spotlight on an issuer bought: Adler Pelzer

Adler Pelzer is a European manufacturer of acoustic and thermal components for both passenger cars and commercial vehicles.

- **Fundamentals:** Tariff risks remain a significant overhang for the auto sector but the company has limited exposure to the US. Its improving operating profile and liquidity position should provide resilience through near-term uncertainty.
- **Valuation:** We added a small position when the yield of the bond was above 12% for 2 year paper. It has since rallied around 3% but remains decent value, with a coupon of 9.5%.
- **Technicals:** Accessing the primary market in the next 2 years is key to refinancing the existing bond. With a single B rating, an improving balance sheet, leverage remaining under 3x and positive free cash flow, we believe they will continue to benefit from buyers taking advantage of a decent running yield.

Contribution data and positioning information as of 30 June 2025. Yield shown is yield to worst. Source: Nedgroup Investments

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What to watch out for next month

Rates:

More of the same market dynamics could present cross-market opportunities. However, as markets remain headline-driven, this month's winners could easily become next month's laggards.

Should we see a squeeze in rates that implies recession-level pricing, we would look to reduce duration to protect the portfolio from a short-term, overbought environment.

Credit:

Record levels of issuance were met with equally strong demand. With supply expected to taper over the next few months, our base case is for a summer grind. This is in the price but any surprises – particularly from ongoing political noise – could create opportunities to adjust our credit positioning.

Contact us

Email: Clientsolutions@nedgroupinvestments.com

London: 7th Floor, 12 Arthur Street, EC4R 9AB, +44 (0) 7960 901396

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