

*Please note that the commentary is for the US dollar retail class of the Fund. The feeder Fund is 100% invested in the underlying US dollar Fund. However, given small valuation, trading and translation differences for the two Funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both Funds.*

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The start of 2025 was the natural successor to the final months of 2024. Additional financial market volatility and increases in selective risk premia that had ensued following the US election in November were augmented and elevated as the new administration settled in. Indeed, the sheer volume and force of policy adjustments in the US – almost entirely by Executive Order – became the singular dynamic shaping market expectations in the US. And with a meaningful downstream impact across global markets more generally, given the breadth and reach of some of the prospective internal and foreign policy, course changes enacted.

Against this backdrop, the Fund returned 1.37% for the quarter against the benchmark return of 1.20%. Since inception, the Fund has outperformed the benchmark by 0.74% p.a.

#### Asset class performances

Arguably, cyclical macroeconomic developments played second fiddle to the unfolding political drama unleashed by the new US administration. Indeed, the most far-reaching threat posed by policy adjustments in the US came from tariffs – a new reality crystallised by the US government with trade reviews announced as one of the very first acts of the new President. And thereafter, practically every week, new developments arose informing the new paradigm of the US approach to foreign trade, all as an ominous preamble to the much-anticipated self-styled ‘Liberation Day’ at the start of Q2, which detailed a momentous reconfiguration of US/global foreign trade relations. But foreign trade adjustments were just one of the many policy vectors that experienced significant structural ructions over Q1.

There were two significant consequences of this elevated uncertainty and disruption. The first was a progressive and increasingly trepidatious hit to sentiment, especially in the US. Evidence of an erosion in confidence – whether across consumers, businesses, or investors – built up throughout the first couple of months of 2025, before sentiment plummeted around the start of the second quarter. Secondly, this turn in confidence alongside higher uncertainty influenced the conduct of monetary policy – not just at the Fed – but across the globe. Central bankers became a lot more focused on the deterioration of visibility, resulting in a greater emphasis on data dependency and serving mainly to stall many monetary easing cycles. Complicating the outlook were mixed signals from incoming data flow. Inflation showed evidence of stickiness across several key economies (especially in services), or the end of deflation/strong disinflation (mainly in core goods). But evidence of a pick-up in trade and manufacturing activity – globally – wasn’t easy to interpret. This step-up in growth could well be a precautionary shifting of activity prior to potential trade restrictions in the future. And hence, signs of reasonable life across a wide swathe of sectors could instead prove to have been a displacement of future activity before a policy-induced slump.

US rates were initially anchored by the Fed’s swing to caution – the Federal Open Market Committee left rates unchanged over the quarter (4.25-4.50%), interrupting what would have been a continuation of the pre-existing easing path. Longer-term interest rates initially experienced further weakness at the start of the year as fiscal concerns weighed. But with disintegrating soft data in the US and progressively increasing fears about the growth impact of the new administration’s policies, a turn to defensive assets such as treasuries became the heftier influence. US Treasury yields ended lower across the curve over the quarter (e.g., US 10yr from c.4.55% to 4.20%), although curve steepness remained very much intact. Among the world’s major bond markets, US Treasuries were the only yields to see net declines over the quarter.

Global bond yields were naturally influenced by the ground-shifting policy shifts that emanated from the US over the quarter, practically on a daily basis. However, internal dynamics within many of the major bond markets were also especially noteworthy in the first few months of the year. In Europe, the schism on security matters between the US and the continent and subsequent shift in potential defence (and infrastructure) spending prompted a reevaluation of long-term interest rates in the Eurozone. Germany 10-year yields started the quarter at their lows (c.2.4%) before peaking in March close to 3.0%. In Japan, a continuation of the central bank’s monetary policy normalisation drive (the BoJ hiked rates in January) and elevated inflation kept long-term rates on a steady upward climb for the entire quarter. In local terms, the best performing major bond market in Q1 was the US (+2.9%), followed by Canada (+2.1%) and Australia (+1.2%). The worst performers were Denmark (-2.7%), Japan (-2.4%) and the Netherlands (-2.1%).

For global inflation-linked bond markets over Q1, the impetus was broadly the same as that seen in their nominal counterparts. The US experienced a decline in real yields; the 10-year real yield started the year around 2.25% before closing the quarter around 1.85%. Conversely, most other Developed Market (DM) linker markets saw an upward drift in real yields over the first three months of the year. Most break-even levels were broadly within their ranges over the course of Q1; more of an upward bias was seen across Continental European markets.

The aggregate Emerging Market (EM) hard currency bond market had a somewhat pedestrian quarter overall in total return terms (+2.2%). And for once, this was actually achieved through

relatively sparse dispersion. The performance of Investment Grade (IG) bonds in this universe was +2.8%, while lower for sub-IG sovereigns at +1.7%. There was no real sustained theme across the curve in the index, with the best performing maturity bucket being the belly (5-7 year cohort) at +3.1%. On aggregate, the index spread rose 24bps in the quarter, while the outright yield closed at 7.8%, down 9bps. For local currency EM bonds, Q1 had a reasonable outcome (+4.3% in USD terms, unhedged), although this wasn’t sufficient to undo the sharp drawdown (-7%) of Q4-24. In local currency terms, the best performing markets were Mexico (+7.1%), Brazil (+5.4%) and Uruguay (+3.2%), while the worst were Turkey (-2%), China (-0.7%) and Hungary (-0.5%). Taking currency movements into account – in a quarter that found the US dollar almost universally on the back-foot – improves country returns across the board, with only a couple of outliers (like Turkey). Here, the returns from Brazil (+13.7%) and Mexico (+8.8%) were especially impressive. In the case of Brazil, the central bank’s intervention in the currency, a higher policy rate (+100 bps), and some movement from the government towards an improved fiscal stance, all helped produce the stand-out performance.

Global spread markets were a somewhat mixed bag over the bulk of the quarter. In the US, IG bonds very modestly lost ground in total return terms (-0.3%), but even more so in excess return terms (-0.9%), as spreads slipped higher. The best place to be in this market was in the shorter-dated buckets, which saw modest total performance gains in the quarter even as spreads widened here, as the market started pricing in the need for sharp and substantial monetary easing in the face of growth-destructive policy developments. What turned out to be a much more challenging period for High Yield (HY) bonds actually started firmly on the front foot. The US HY market started the year with spreads around 300 bps (already highly suppressed from a historical perspective), but this crunched in even lower to a tight of c.260bps during January. Incidentally, the prior low for the same market measure was c.240bps – mere months before the onset of the Global Financial Crisis in 2007. However, from mid-February into the close of the quarter and beyond, HY spreads began widening precipitously. The net result was an excess return of -1.3% – the first negative quarter since Q2-22 – although total returns were still positive at +0.9%; a decent outcome despite everything. European HY experienced a similar pattern over the quarter, albeit more muted (excess return: +0.3%; total return: +0.6%).

Global real estate markets had largely held it together over the course of Q1, despite growing uncertainty surrounding the growth outlooks in major economies and less support potentially from lower interest rates. The FTSE/EPRA NAREIT Global Index put together a net total return of +1.9% for Q1 (in USD), although it certainly helped that the base to start the year had been particularly beaten up – recall that this market had seen a decline of 9% in Q4-24. The relative buoyancy of REITs – across many markets – had been fairly encouraging, given the slippage seen across other equity sectors and risk markets. As we know now, of course, this relative stability proved illusory as the first few days of Q2 demonstrated.

#### Fund activity

With respect to Fund activity over the quarter, as is mostly the case, the bulk of transactions related to recycling existing exposures that had drifted into modestly expensive territory and replaced by new issues perceived to be relatively cheaply priced. This tends to occur within the higher-rated credit buckets involving short-dated issues (usually one to three years). There is also the natural recycling of maturing issues, given that the Fund tends to have a meaningful and continuous liquidity ladder spanning from one quarter to the next.

The Fund’s interest rate exposure increased from the end of 2024 to the end of Q1. With the re-pricing of US interest rate cuts over the course of the first quarter, duration exposure was reduced modestly in this market, reflecting the severity of the shift in market pricing. However, we added to opportunities in non-USD markets over the quarter, across both EM and DM interest rate markets; these were completely hedged back to US dollars. Elsewhere, the Fund incrementally added credit risk over the course of the quarter – although much more so in the closing weeks of Q1. Positioning here at the start of the year was particularly defensive and cautious, which created the latitude to selectively seize upon opportunities as they arose over the course of an uncertain and increasingly (rightly) nervous period for spread markets. As such, the Fund’s aggregate credit duration rose modestly over the quarter but remains well shy of utilising the full risk budget available. Finally, the Fund remained opportunistically disposed towards accumulating additional property exposure over the quarter, although the take-up here was substantially reduced relative to the final quarter of 2024. The aggregate property exposure in the Fund provides further scope for accumulation into weakness, as and when valuations justify this.

#### Portfolio managers

Nishan Maharaj and Seamus Vasey  
as at 31 March 2025