Fund Review

Butterfield Asset Management Limited

Select Fund: Global Fixed Income Class

Quarter 2 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.

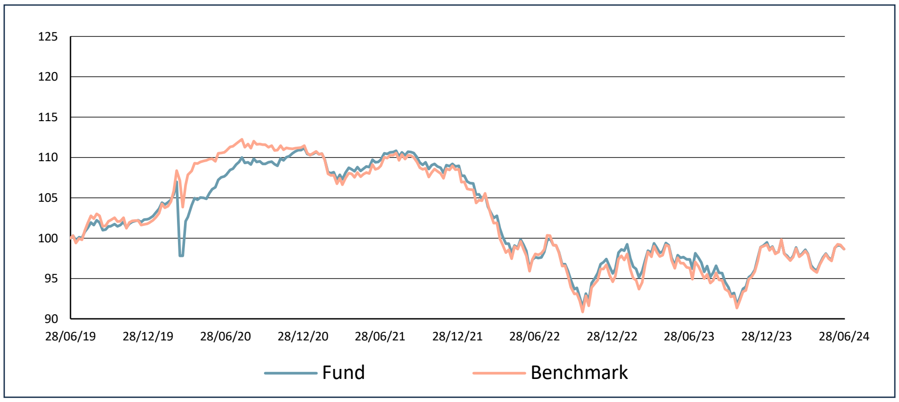
Investment process

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 June 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	1.31%
Size of fund (millions)	USD 37.1
NAV per share	USD 21.10

Performance chart



Average annual compound returns

	QTD	YTD	1 year	3 years	5 years	10 years
Fund	0.09%	-0.85%	1.30%	-3.49%	-0.27%	1.33%
Benchmark	0.24%	-0.55%	2.44%	-3.27%	-0.27%	1.52%

Fund review

The Global Fixed Income Class produced a return of 0.09%, net of fees in Q2 which was slightly below the 0.24% return for the fund's benchmark. The fund's corporate credit allocation generated stable carry and the overweight to longer duration securities such as US mortgages, which have positive convexity, boosted returns offsetting negative alpha from the fund's inflation protected securities which we continue to own as a tail risk hedge.

During Q2, we witnessed weaker US macro-economic and softer inflation data which came as a surprise given the previous quarter showed much firmer price trends in what may be a sign that rapid tightening in monetary policy is starting to impact the economy. Weak Chinese data also continues to remain a drag on global activity although, a resilient Europe and rebounding UK managed to keep global readings in positive territory.

US treasury yields traded in a wide range with the 10-year reaching a low of 4.20% and a high of 4.70% as confidence over rising growth expectations and sticky inflation started to wane given signs of a slower US economy and lackluster Chinese stimulus. Firming activity in Europe and the UK has also led to a slowing of positive inflation trends although, a return to rampant price rises is very unlikely. Market based long term US base rate expectations at 3.75% remain much higher than the Federal Reserve's forecast.

In April, rising stress in risk assets (credit and equities) was partly due to the resumption in rising bond yields which left the fund without any protective hedges whereas in June when risk assets again weakened US Treasuries benefitted with the market risk now focused on European geo-political events and US election risks.

Contact us

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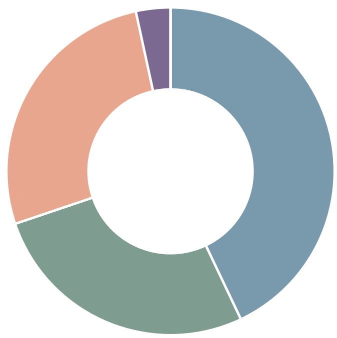
The futures market is now pricing in a 56% probability that the Federal Reserve lowers base rates by 25bps in September with a high likelihood of another move in December. The rates cycle appears to have turned with US employment showing shows of weakness as the unemployment rate breached 4%. Combined with softer core and super core US prices central bankers are tilting towards 'insurance' cuts. However, easing policy with risk assets at close to all-time highs is very rare and potentially dangerous.

Fund positioning remains overweight US mortgage backed securities. In addition to the coupon, prepayment activity YTD has generated large capital gains as we expected. Duration remains slightly underweight the benchmark as the fund has exposure to positive convexity which provides an added duration overlay if yields fall dramatically. The corporate credit exposure is small and targeted towards positions with attractive risk/reward properties. We continue to look for broader evidence of a dramatic growth slowdown before overweighting interest rate duration.

Asset allocation



Government	42.9%
Securitised/Collateralised	26.9%
Corporate	26.8%
Cash	3.4%

Top 10 holdings

1	US TREASURY N/B 1.5 15/02/2030	5.2%
2	US TREASURY N/B 1.25 30/04/2028	4.2%
3	US TREASURY N/B .875 15/11/2030	4.1%
4	US TREASURY N/B 4.5 15/11/2033	4.1%
5	US TREASURY N/B 4.25 15/03/2027	4.1%
6	ANGLO AMERICAN CAPITAL 4.875 14/05/2025	4.0%
7	BANK OF AMERICA CORP 3.95 21/04/2025	4.0%
8	RENAISSANCERE FINANCE 3.45 01/07/2027	3.9%
9	US TREASURY N/B 1.125 15/05/2040	3.3%
10	US TREASURY N/B 0.625 15/05/2030	3.3%

Benchmark composition

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