Fund Review

Butterfield Asset Management Limited

Select Fund: Global Fixed Income Class

Quarter 3 2023

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.

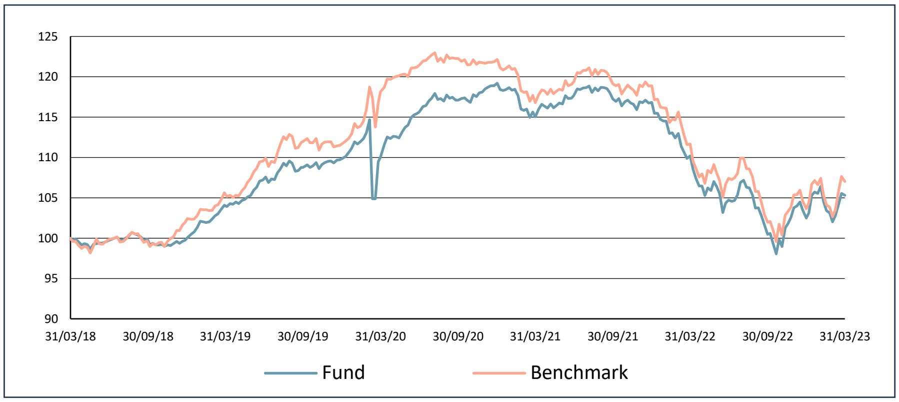
Investment process

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 2023

Currency	USD
Valuation	Weekly
Dealings	Thursday
Front end fee	None
Units available	Accumulation
Identifier	BUTSLFX BH
Fiscal year end	30 June
Minimum investment	USD 10,000
Total expense ratio	1.22%
Size of fund (millions)	USD 35.9
NAV per share	USD 20.08

Performance chart



Average annual compound returns

	QTD	YTD	1 year	3 years	5 years	10 years
Fund	-3.60%	-1.81%	0.20%	-4.92%	0.15%	1.40%
Benchmark	-2.99%	-1.28%	0.35%	-5.77%	0.52%	1.29%

Fund review

The Global Fixed Income Class produced a return of -3.60%, net of fees in Q3 which whilst negative was below the -2.99% return for the fund's benchmark as the longer end of the yield curve underperformed due to concerns over massive future US Treasury supply.

As we have positioned for since the start of the year the third quarter saw an explosion in volatility with global real yields, energy prices and the US dollar all rising to levels that historically have led to a severe economic slowdown. As we close out the quarter 10-year US Treasury yields have risen by 73bps reaching 4.57% - its highest level since June 2007 the eve of the financial crisis – with negative momentum building since the US Treasury released new funding requirements, leaving the 2023 fiscal deficit at a huge $2trn. In addition, the Bank of Japan expanded the trading range of 10-year Japanese bond yields to 1% and oil prices have risen sharply.

Economic growth continues to weaken in Europe and the UK and as a result it is very likely that the Bank of England and the European Central Bank are very close to the end of their tightening cycles – UK Gilt yields bucked the trend in Q3 outperforming the G7. In contrast, US macro data remains robust and overall economic activity has broadly surprised us and the market – the Atlanta Fed GDPNow forecast for Q3 is an elevated +4.9% annualised – this deviation in economic prospects has led to a resurgence of the US dollar which strengthened across all major currencies as it becomes more probable that the Federal Reserve

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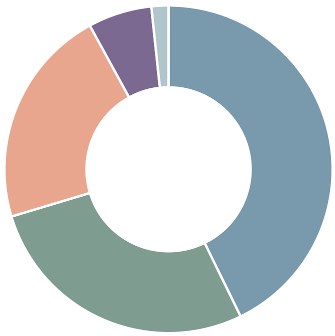
(which raised rates by 25bps in July to 5.25-5.50%) will have to keep US base rates far higher and for far longer than their peers.

Global liquidity continues to tighten with all but the People's Bank of China reducing central bank balance sheets over the quarter. However, reverse repo cash balances parked at the Federal Reserve by US money market funds also declined by US$400bn which largely offset the decline. Compounding this pressure credit provided by banks continues to tighten with lenders reducing availability in areas such as auto loans and credit cards as the end of the economic cycle approaches and delinquencies are starting to rise. As we move into the final quarter quantitative tightening will take the lead as the main monetary policy transmission mechanism and this is expected to remain restrictive for some time.

Portfolio positioning continues to lean defensively with a high allocation towards government debt and US mortgage-backed securities – we expect credit spreads to rise in the coming months and are actively attempting to minimize drawdowns. We also find value in short dated US Treasury floating rate notes. Interest rate risk looks attractive but we a mindful of the negative momentum now building – 2-year yields have so far avoided this and make a good low volatility/ high carry tactical home whilst we wait for stabilization at the long end of the curve.

Asset allocation



Government	42.8%
Corporate	27.6%
Securitised/Collateralised	21.7%
Emerging Markets	6.3%
Cash	1.7%

Top 10 holdings

1	WELLINGTON BLENDED OPPORT EMERGING MKTS	6.2%
2	TSY INFL IX N/B 1.625 15/10/2027	5.6%
3	US TREASURY N/B 1.5 15/02/2030	5.2%
4	US TREASURY N/B 3.375 15/05/2033	5.1%
5	US TREASURY N/B 1.25 30/04/2028	4.2%
6	ANGLO AMERICAN CAPITAL 4.875 14/05/2025	4.2%
7	US TREASURY N/B .875 15/11/2030	4.1%
8	BANK OF AMERICA CORP 3.95 21/04/2025	4.1%
9	RENAISSANCERE FINANCE 3.45 01/07/2027	3.9%
10	US TREASURY N/B 0.625 15/05/2030	3.2%

Benchmark composition

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