Nedgroup Investments

Global Strategic Bond Fund: Q4 2025 review

Marketing Communication, January 2026

see money differently

Palomar Fixed-Income

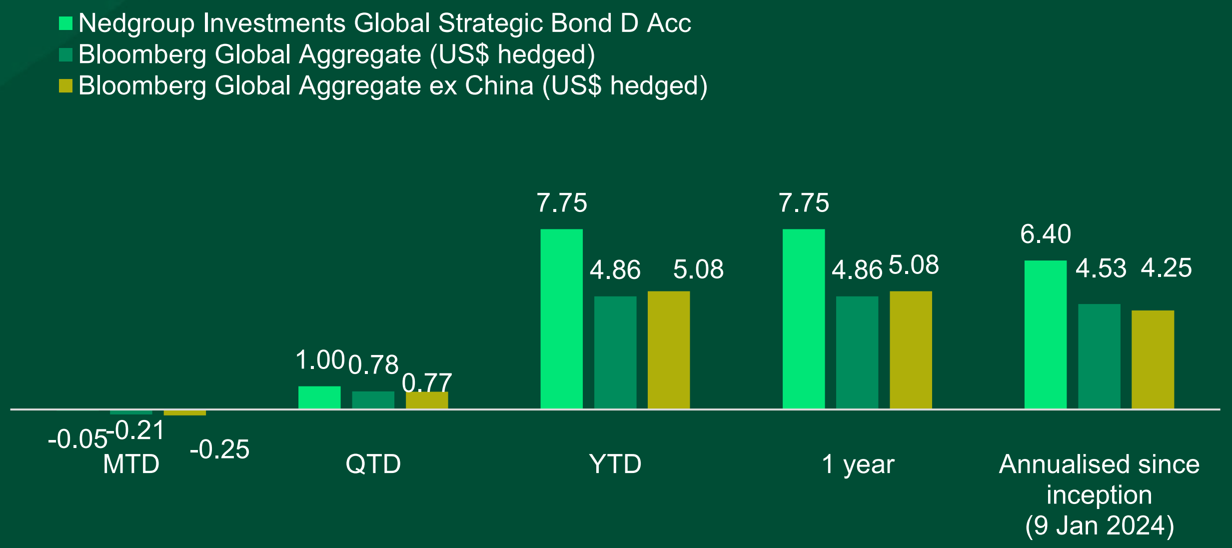
Markets and Performance

Q4 2025

- Modest total return and relative return for the quarter in US$:
  - Fund: 1.00%, Bloomberg Global Agg (US$ hedged): 0.78%
- Total return was driven by income
- Bond yields and prices were, in aggregate little changed over the quarter
- Much of that was from "carry" – our structural overweight in high-quality credit
- The residual was from tactical credit and rates opportunities

A core fund behaving like bonds

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



Data as at 31 December 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. The share classes being offered in Germany are newly launched and do not have their own historical performance data. The performance information presented in this marketing material relates to the nearest comparable share class and is provided solely for indicative purposes. Differences in fees, and other factors may affect future performance. Investors should not rely solely on this information when making investment decisions.

Volatility on the wane?

US Treasury volatility at multi-year lows

10-year US Treasury yield quarterly ranges over 2025

Period over 2025	10-year US Treasury yield range (%)	Difference (bps)
Q1	4.15 – 4.80	65
Q2	4.60 – 4.00	60
Q3	4.50 – 4.00	50
Q4	4.20 – 4.00	20

10-year US Treasury yields over 2025

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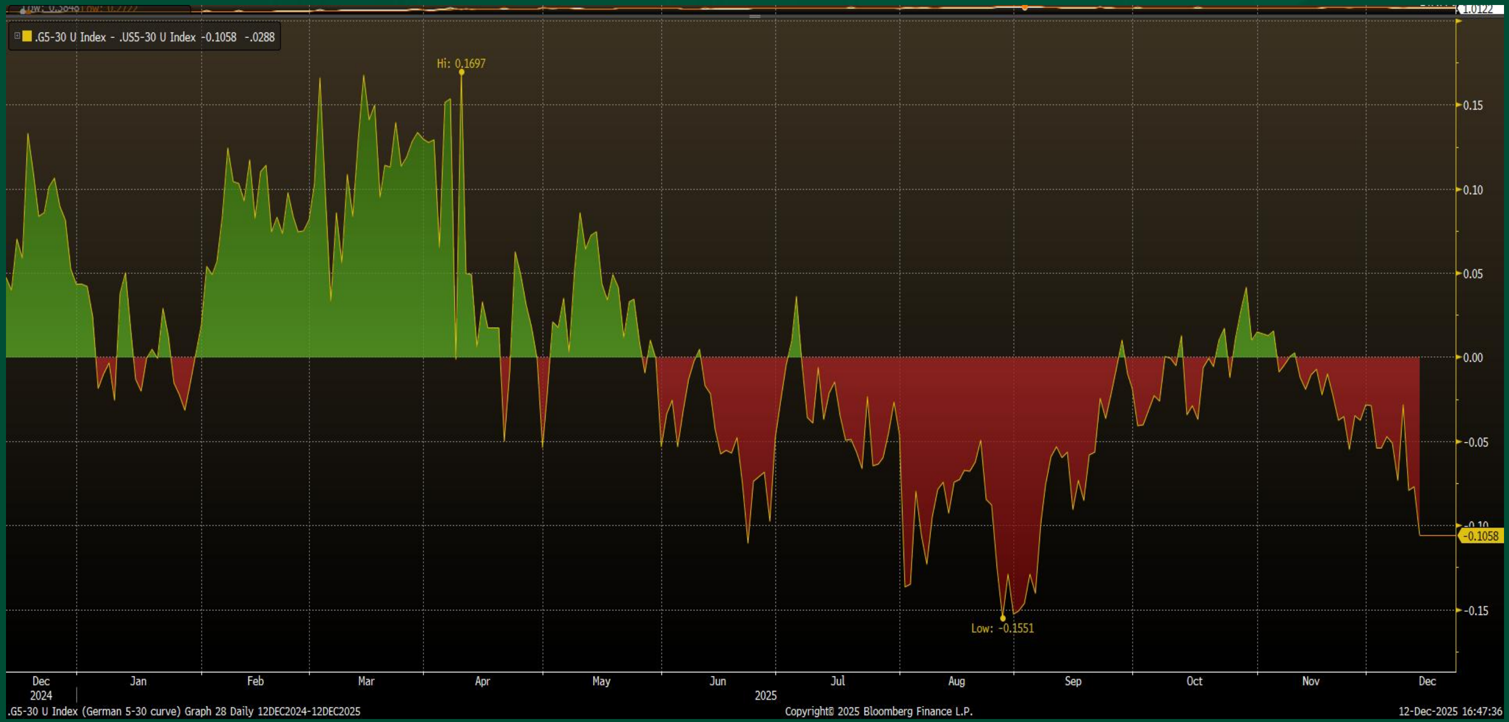
Data from 31 Dec 2024 to 31 Dec 2025. Source: Bloomberg

The devil *and opportunity* are often in the detail

German government yield curve (30-year minus 5-year, bps)



- We believed US short bonds would perform well.
- And thought the same of long German ones.
- We constructed a trade ("box trade") to target that
- Without adding interest rate or geographic risk.

Data shown from 31 Dec 2024 to 31 Dec 2025. Source: Bloomberg

AI brings danger to passive investors

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Oracle long-dated bonds: Losses of 12% in Q4 2025

Oracle long-dated bonds: Spreads have widened

- We expect a surge in AI finance in 2026
- Most AI funding has been done in private markets or via equity
- There have been data centre asset backed deals
- We did not participate.

- Oracle is a rare issuer. So far
  - They destroyed their balance sheet to chase the AI dream
  - Holders long dated bonds lost 12% in Q4 alone
  - At a time when bond prices generally rose
- More of this is coming; The dangers of passive index investment are clear.

Summary and Outlook

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Q4 Summary

- Not all plane sailing.
- While US bond volatility declined, other markets saw an increase.
- We moved from short to long Australia.

Long Australian Bond Futures

Q1 2026 Outlook

- The collapse in US bond volatility may change when Trump announces a new Fed Chair.
- Meanwhile, volatility continues to rise elsewhere.
  - Australia shifts from rate cuts to hikes.
  - The Bank of Japan remains politicised.
- Modest growth should support corporate debt.
- Despite AI risks, we expect more of the same in 2026:
  - “old normal”, income- and alpha-driven returns

Positioning

Positioning and perspectives

Total portfolio: Yield = 4.5% (% exc. futures), Duration = 6.0 years, ESG rating: A

Rates (yield = 3.8%, duration = 4.6 years))

Positioning in sovereign bonds	Fund	Expected fund range	Index
	32% (48% inc. futures)	30% - 40%	53%
Investment perspectives	**Valuation** Slightly cheap relative to CPI expectation and should continue to offer nice total returns in 2026.	**Fundamentals** Mixed – Q3 numbers were skewed by tariff policies (US GDP a prime example), but CPI needs to fall, otherwise markets will be disappointed.	**Technicals** Lots of supply due and markets may make a short-term concession. Long dates look unloved, but skewed positioning could see a bounce.

Credit (IG: yield= 4.8%, duration = 5.1 years), (HY: yield= 5.8%, duration = 3.7 years)

Positioning in corporate bonds	Fund	Expected fund range	Index
	Investment grade: 46%	20% - 60%	19%*
	High yield: 19%	20% - 30%	0%
Investment perspectives	**Valuations** Credit remains expensive with spreads trading close to historic tights. Very little upside potential and expect more attractive entry points.	**Fundamentals** Decent fundamentals remain with strong margins but increasing M&A places increased value on effective stock selection.	**Technicals** Technicals remain decent due to positioning but there were some weeks of outflows in both IG and HY during December.

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Positioning information as of 31 Dec 2025. Yield shown is yield to worst. Source: Nedgroup Investments

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