Please note that the commentary is for the retail class of the Fund.

Asset class performances

The final quarter of 2025 emphasised the continued divergence in central bank policy across different jurisdictions. At the same time, it highlighted the unfading presence of fiscal vulnerabilities and how these are only set to deepen as medium-term drivers of term premia, sovereign spreads, and risk appetite. Differing interest rate outlooks; debt supply concerns; pipeline effects of earlier global trade shocks; geopolitical ructions and the usual complications of muddied macroeconomic signals all helped drive one of the leading global financial phenomena of 2025 to new heights: demand for precious commodities. Indeed, if the extraordinary performance of gold in Q4, in particular, is emblematic of a safe haven shift, then concerns around global tariffs, geopolitical conflict, cyclical downturn fears, corrosion of the US as an effective hegemon, and a desired de-risking away from paper numeraires and especially the US dollar, have potentially reached heights not seen in recent decades. If this is accurate, then the comparative calm in global fixed and currency markets in the closing months of 2025 is the real anomaly that will require resolution in some form in the foreseeable future.

Against this backdrop, the Fund returned 0.94% for the quarter against the benchmark return of 1.13%.

The US Federal Reserve (Fed) lowered the US policy rate twice during the last three months of 2025, taking the upper target rate to 3.75% from 4.5% at the start of the year. The driving influence on looser monetary policy has remained weakness in the US labour market, with the last unemployment rate print (November) at 4.6%, the highest level in four years. Internal division within the Federal Open Market Committee has grown, reflecting relatively large differences in opinion about the correct stance for monetary policy currently, as well as what's likely required over 2026. Relatedly, political pressure on the Fed continued to escalate in the final months of 2025, with the White House mulling potential steps to trim the central bank's autonomy. The Fed also announced the cessation of quantitative tightening at the start of December (which was not unexpected), but somewhat earlier than most had anticipated. On top of this, the Fed announced the resumption of purchases of short-term Treasuries to help ease money market strains.

US Treasuries reached their yield lows for 2025 during the last quarter of the year (10-year below 4%) but struggled to maintain these levels. Indeed, US rates across the curve were largely range-bound across the last few months of 2025, before ending on the weaker side. In contrast, core European yields experienced a much wider span, with initial solid strength in Q4 giving way to meaningful weakness to close the year, in line with the levels seen at the very height of the "Liberation Day" shock back in March. Continued pressure from Germany's fiscal expansion and concern surrounding France's ability to secure parliamentary support for fiscal consolidation were the primary influences. Peripheral eurozone sovereign bond markets outperformed core Europe, with borrowing premiums to Bunds hitting lows last seen over 15 years ago in some instances. In the UK, the unhelpful combination of stubborn inflation and the Labour government's weak handling of public finances kept Gilt yields elevated before the November Budget went some distance in easing concerns. The 10-year benchmark Gilt ended 2025 at ~4.48%, very close to its 2024 closing level. But the standout performance among developed market sovereign bonds in Q4 rested with Japan. Substantial and rapid weakness resulted from a swing to expansive government spending plans, with hawkish monetary policy from the Bank of Japan adding to the pressure. Japanese sovereign bond yields ended 2025 at their highest levels since the 1990s, truly marking the end of an extensive era of ultra-low interest rates in this market.

Inflation-linked bonds in the US were essentially flat over the quarter, gaining only ~0.1% and taking the year's total returns to ~7%. Real yields were around 15-20 basis points (bps) higher over the quarter; the two-year real yield ended 2025 at ~1.2% and the 10-year at ~1.9%. Aside from Japan, which saw a severe negative performance in linkers in Q4, most other developed-market linker markets also had a relatively sedate end to the year.

It was a solid end to a solid year for hard-currency Emerging Market (EM) debt. The J.P. Morgan EMBI Global Diversified Index provided a total return of 14.3% for 2025. Previous years of better returns were way back in 2019 (+15%) and 2012 (+17%). Gains were widespread, and negatively performing markets were few and far between. For the overall market, the EM hard currency index spread was c. 325bps to start the year, then reached a peak of c. 390bps in the immediate wake of "Liberation Day" before ending the year at its lows of c. 250bps. The highest contributors to the asset class's overall returns came from previously maligned, very low quality, and still fundamentally risky sovereign credits. Thus, even as spread compression was widespread over the year across the quality spectrum, the heavy lifting came from a rising tide lifting all boats – and especially those that traded with deservedly high fiscal risk premiums.

Local currency EM debt similarly had a standout year for the asset class, notching a total return for 2025 of 10.1%, with prior better years harking back to 2019 (+12.3%) and 2012 (+13.7%). However, once viewed in US dollar terms, 2025 was an absolute humdinger of a year for the asset class, with the J.P. Morgan GBI-EM Global Diversified Composite gaining +19.3% – only last bested in 2009 with a Global Financial Crisis rebound return of +21.9%. All facets benefited performance here: capital appreciation, high starting yields, and a weak US dollar/solid EMFX gains. In US dollar terms, none of the key local currency debt markets detracted from performance, highlighting the beneficial tailwind of a weakening US dollar. The lowest was India at ~2%, and the highest was South Africa at ~41%; the latter a high-octane combination of very high starting real yields providing a good interest return and ability for capital appreciation, as well as a steadily appreciating currency, bar the temporarily disruptive global tariff events in Q1.

US Investment Grade (IG) credit eked out a modest total return of +0.8% over the final quarter of the year, although 2025 as a whole provided a very respectable +7.8%. While the index spread for IG ended up at c. 80bps by the year-end close, essentially in line with starting levels, there had been a fair amount of movement in between. The pattern for US High Yield was broadly the same: a solid total return for 2025 of +8.5%, helped by high starting yields rather than meaningful spread compression, bearing in mind that corporate credit spreads by the end of 2024 were already considered historically rich. A more modest outcome transpired for European corporate credit over 2025. Here, IG as an asset class provided an annual return of 3% in euros, with European High Yield giving 5.1%. Slightly different core yield curve dynamics, as well as a more advanced monetary policy cycle in the eurozone explained the modest performance gap between the US and the eurozone. Spread products globally had a solid performance year over 2025, even as spread compression played a limited role in many instances.

Global REITs provided a lot more volatility over Q4 than the preceding months of 2025. Yet this amounted to significant movement, without much change on a net basis. Overall, with a total return of 11% (USD) for 2025, this was a reasonable year for the asset class, especially when considering the broad-based weakness in the US dollar. A combination of subdued global risk appetite and range-bound rates over the fourth quarter kept the asset class in a sideways holding pattern.

Fund activity

As is mostly the case, the bulk of transactions throughout the quarter involved recycling existing exposures that had drifted into modestly expensive territory, replacing them with new issues perceived as relatively cheaply priced. This tends to occur within the higher-rated credit buckets involving short-dated issues. 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.

With challenging valuations across spread asset markets at the beginning of the quarter, any additional spread tightening provided further grounds to continue easing off credit risk in the Fund. Thus, while the usual relative-value recycling activity within the Fund occurred, the ratio of new additions to sales/redemptions remained at a low level, similar to the prior three months. This allowed the Fund's aggregate credit exposure to remain at a relatively contained ebb into the closing months of 2025.

Following the Fund's Q3 activities, which saw both an increase and enhanced diversification of its property exposure, this was extended into Q4. The additional volatility across several REITs of interest in the final months of 2025 provided two-way opportunities to both add to new exposures and tactically take profits on slightly over-extended REIT holdings. The net result, however, was an overall reduction in the Fund's total property holding, as occasions of more zealous positive performances proved more numerous than unwarranted dips into attractively cheap territory.

Portfolio managers
Nishan Maharaj and Seamus Vasey
as at 31 December 2025