Wellington Global Total Return Fund (UCITS)

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global sovereign yield curves steepened markedly despite hawkish rhetoric tilt from major central banks as term premium rose in response to deteriorating fiscal trajectory. Credit spreads widened and fixed income sectors posted mixed excess return results.

Most global sovereign yields moved higher with yield curves steepening across major developed economies. US Treasury yields rose, particularly in the latter part of month following the Fed's hawkish tilt. European yields also moved higher despite the ECB's fourth rate cut this year as President Christine Lagarde stated the eurozone was getting very close to reaching the central bank's medium-term inflation goal. Canadian front-end yields declined on a deteriorating growth outlook. In APAC, Japanese government bond yields inched higher, and Australia saw its short-term yields move lower as recent data on inflation and economic conditions increased markets' expectation the RBA is getting closer to cutting rates. In EM, sovereign yields also moved higher, with the notable expectation of China as economic data signaled persistent weakness in domestic demand.

The USD appreciated versus major developed- and emerging-market currencies. President-elect Trump's prospective policies on immigration and tariffs added upward pressure on inflation, steering the Fed's cautious stance on rate cuts. Geopolitical tensions and challenging growth outlook outside the US further boosted the greenback. Among G10 currencies, the NZD, AUD and JPY were the notable underperformers. China's manufacturing slowdown exerted pressure on the NZD and AUD. The JPY weakened to a five-month low as markets digested the Fed's hawkish cut and the BOJ's rate hike uncertainty. In EM FX, performance was broadly negative, fueled by prospects that president-elect Trump will impose sweeping trade tariffs.

FUND PERFORMANCE AND ATTRIBUTION

Interest rate strategies were positive. Our overall short duration positions in the US and UK, along with a curve steepening bias in the euro area were the main contributors. Global sovereign yields moved higher with yield curves steepening across major developed economies as the progress in bringing inflation towards the long-term 2% target has seemingly stalled, leading to renewed inflation fears and central banks sending a more hawkish tone at their December meetings. Our short duration position in South Africa was also positive, as local bond yields moved higher in sympathy with the global rates market. Our longs in Japanese breakeven inflation and long European rates volatility positions contributed positively as well. Country relative value strategies were also additive. Our long EUR versus SEK 5yr duration position generated positive returns, driven by increasing downside risk to the eurozone growth outlook and the Riksbank taking a relatively hawkish stance at its December meeting that has raised more doubt about the need for a cut in 2025. Additionally, our long Germany versus US trade produced positive results, benefiting from stronger growth outlook for the US relative to the eurozone.

Currency strategies were positive. Our short positions in ZAR and MXN versus USD were the primary contributors to performance. The ZAR continued to weaken against the dollar on a hawkish Fed outlook. MXN extended its sell-off on Trump's tariff threats as well as lingering political risks related to the controversial judicial reforms. Within DM FX, our tactical short position in NZD versus USD produced positive results as China's manufacturing slowdown continued to exert pressure on the NZD. The gain was partially offset by our tactical long JPY versus USD position, as JPY weakened to a five-month low while markets digested the Fed's hawkish cut and the BoJ's rate hike uncertainty.

Credit strategies were positive. Our exposure to high yield corporate credit was marginally additive.

FUND POSITIONING AND OUTLOOK

We are short Japanese duration. The BOJ is the only DM central bank that is priced for rates sustainably below neutral in a year's time, and we think markets are underappreciating the possibility of policy rates increasing to 1% by the middle of next year.

We are short UK duration. The biggest risk facing the UK is if the Bank of England tries to front load cuts into a fiscal loosening with unemployment near the lows, then the UK could see a repeat of the Liz Truss moment in 2022. More risk premia would need to be priced.

We are tactically positioned in US duration. While the Fed may slow its cutting cycle sooner than expected, we anticipate volatility in how markets price the pace of future cuts. This means higher yields interest rates are likely here to stay, and yields may move even higher for long-dated bonds to account for higher trend growth, average inflation and inflation volatility as well as a negative fiscal backdrop for the US. Trump's second term will likely accelerate underlying trends around weaker labor supply and a deteriorating fiscal backdrop.

We maintain our short exposure to select EM currencies (notably CNH, ZAR and PLN) versus USD. We expect the US dollar to be rangebound in the near term and therefore will be more tactical in our dollar positioning against other G10 currencies, with a focus on idiosyncratic stories that could drive individual currency performance. We also favor a tactical long exposure to AUD and tactical short positions in a basket of currencies (EUR, GBP, SEK, CAD) versus USD due to the cyclical headwinds and central banks that are set to keep reducing interest rates likely at a faster pace.

We maintain a modest long exposure to all credit sectors but particularly favor high-quality SSA securities and MBS given their more attractive valuation and/or defensive profiles. We expect credit spreads to remain rangebound in the near-term, however we acknowledge the potential for continued bouts of credit spread volatility as the US election's potential ramifications for fiscal and trade policy become clearer, the global cycle moderates and geopolitical tensions persist.

RISKS

CAPITAL: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CREDIT:** The value of a bond may decline, or the issuer/guarantor may fail to meet payment obligations. Typically lower-rated bonds carry a greater degree of credit risk than higher-rated bonds. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **DERIVATIVES (D+E) (MKT):** Derivatives may provide more market exposure than the money paid or deposited when the transaction is entered into (sometimes referred to as Leverage). Market movements can therefore result in a loss exceeding the original amount invested. Derivatives may be difficult to value. Derivatives may also be used for efficient risk and portfolio management, but there may be some mismatch in exposure when derivatives are used as hedges. The use of derivatives forms an important part of the investment strategy. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **HEDGING:** Any hedging strategy using derivatives may not achieve a perfect hedge. **INTEREST RATES:** The value of bonds tends to decline as interest rates rise. The change in value is greater for longer term than shorter term bonds. **LEVERAGE:** The use of leverage can provide more market exposure than the money paid or deposited when the transaction is entered into. Losses may therefore exceed the original amount invested. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **QUANTITATIVE MODEL/SYSTEMS:** The Fund uses quantitative investment models in the management of this investment strategy. Assumptions employed in the models used could over time prove to be incorrect which may have a negative impact on the investment performance. **SHORT SELLING:** A short sale exposes the Fund to the risk of an increase in market price of a security sold short; this could result in a theoretically unlimited loss. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

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