Fund Review

Butterfield Asset Management Limited

Butterfield

US Dollar Bond Fund: Class C

Quarter 3 2020

Objective

To maximise total return through income and capital gains by investing in medium to high-grade US dollar-denominated debt securities with a short to medium-term maturity profile.

Investment policy

The Fund will target a weighted average duration of 2.5 years and will enhance returns through sector and credit diversification.

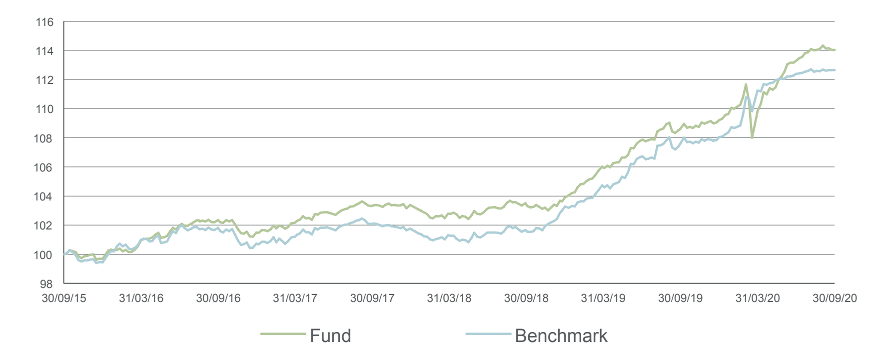
Investment process

The primary considerations for our fixed income investment choices are liquidity and safety of principal. Our philosophy is to focus on all elements of yield enhancement in order to incrementally outperform the benchmark on a consistent basis.

Key facts as at 30 September 2020

Currency	USD
Valuation	Weekly
Dealings	Wednesday
Front end fee	None
Units available	Accumulating
Identifier	BUTUSBC BH
Fiscal year end	31 December
Min. investment	USD 5 million
Total expense ratio	0.35%
NAV per share	USD 12.185
Size of fund (millions)	USD 107.5

Performance chart



Average annual return and risk statistics

	YTD	1 year	2 years	3 years	5 years
Class C Return	**4.43%**	**5.00%**	**4.97%**	**3.34%**	**2.66%**
Benchmark Return	4.27%	4.73%	5.26%	3.34%	2.41%
Class C Standard Deviation	**2.30%**	**2.02%**	**1.76%**	**1.65%**	**1.48%**
Benchmark Standard Deviation	1.45%	1.37%	1.48%	1.54%	1.49%
Class C Sharpe Ratio	**1.65**	**1.93**	**1.83**	**1.00**	**0.99**
Benchmark Sharpe Ratio	2.51	2.65	2.38	1.07	0.82
Alpha	0.16%	0.27%	-0.29%	0.01%	0.25%
Tracking Error	2.84%	2.46%	1.85%	1.52%	1.23%
Information Ratio	0.06	0.11	-0.16	0.00	0.20
R-Squared	0.01	0.00	0.13	0.30	0.43

Fund review

The Fund produced a return of 0.66%, net of fees in Q3, which was above the 0.24% return for the fund's benchmark. Performance for the most recent quarter was relatively subdued as the vast majority of credit spread tightening and moves in US Treasury yields took place in Q2 as a result we are actively now reducing volatility and focusing on protecting YTD gains as we approach an unpredictable and potentially very volatile final quarter.

Standard & Poor's combined Credit and Volatility rating

AA-f/S2

MORNINGSTAR® ★★★★★

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In contrast to the sharp snapback in economic activity seen during Q2 economic growth around the world slowed this quarter as the more consumer sensitive sectors, such as tourism, remain in hibernation this is unlikely to change until a vaccine is widely rolled out in 2021 therefore activity will remain lackluster for many months.

US economic data has continued to perform better than expected with the unemployment rate now almost below 8% and the housing market at its most buoyant since 2006, as ultra-low mortgage rates provide a tail wind however, the recovery remains split with huge segments - predominately lower earning service workers – still in recession. The Federal Reserve has been largely absent since May and have allowed their balance sheet to shrink back below US$7trn as financial markets are functioning normally and borrowing costs are low (10 year US Treasury's yield 0.69%) hence the next round of stimulus needs to come from the US Treasury preferably targeting the lagging areas of the economy.

COVID-19 continues to dominate with global cases officially reaching 34 million, but likely much higher in reality due to inadequate testing at the start of the year. The caution we exhibited towards the end of Q2 due to rising US cases was in hindsight unwarranted, although case numbers rose rapidly during July hospitals were never close to capacity and fatalities were much lower than what was witnessed in New York during March/April. As a result risk assets remained resilient, bond yields did drift lower but this was driven by the expectation that base rates will be on hold for a much longer period and therefore real yields declined further as inflation expectations increased to pre-COVID levels with 10 year inflation breakevens ending the quarter at 1.56%.

Portfolio positioning remains largely risk on with a continued preference for investment grade corporate bonds, inflation protection and Canadian dollar currency exposure but we are well aware that current valuations leave little room for error. The long end of the US Treasury curve is extremely vulnerable depending on who leads the US next year to compound this. A COVID-19 vaccine is likely to be rolled out early 2021 which would unleash pent up consumer and corporate spending, resulting in higher bond yields and large capital losses for investors - hence why we hold little exposure to long duration bonds. The current low level of government bond yields also leave little value as a hedge if another volatility event rocks the markets hence cash is valuable on a risk adjusted basis and we have raised additional liquidity as we head into November.

Average duration and volatility

Duration	2.5 years
Volatility	1.48%

Contact us

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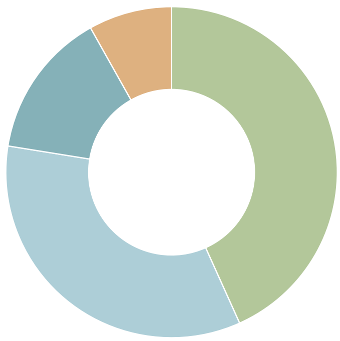
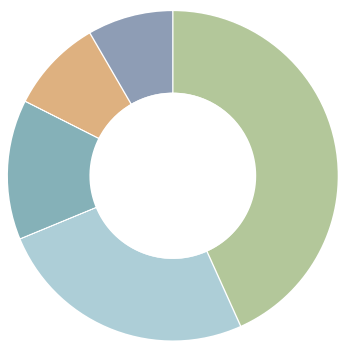
Credit ratings



AA	43%
A	34%
AAA	14%
BBB	8%

Sector breakdown



Corporate	43%
Treasury	25%
Supra/Sovereign	14%
Cash	9%
Securitised	8%

Benchmark composition

100% of B of A Merrill Lynch 1-5 Yr US Gov/Corp AAA-A Rated.

www.butterfieldgroup.com