HUNTER GLOBAL FIXED INTEREST FUND

HUNTER INVESTMENT FUNDS

Report & Commentary

30 June 2021

Fund Information	30 June 2021			
Fund Size	$1.07 billion			
Fund Type	PIE			
Investment management	PIMCO			
Benchmark	Bloomberg Barclays Global Aggregate Index - $NZ hedged			
Performance (gross)	**1 month**	**3 months**	**1 Year**	**3 Year pa**
Portfolio (%)	+0.39%	+1.03%	+3.35%	+5.07%
Benchmark (%)	+0.51%	+1.01%	+0.02%	+4.28%
Alpha (%)	*-0.12%*	*+0.02%*	*+3.33%*	*+0.79%*

The performance in this fact sheet is gross of fees and tax. Investors should also refer to the Quarterly Fund Update, which is available on hunterinvestments.co.nz and business.govt.nz/disclose.

Performance update

The Hunter Global Fixed Interest Fund underperformed its benchmark in June, its defensive positioning meaning it did not benefit from a surprise fall in interest rates.

Holdings of high quality US Agency MBS added value this month, outperforming like maturity Treasury bonds. Similarly, positions in Australian and Canadian government bonds benefitted from a flattening of yield curves. An overweight to Danish duration also contributed as yields fell.

However, our underweight to US duration, and yield curve positioning in the UK detracted from performance in the face of falling interest rates. An underweight exposure to the US dollar versus a basket of G10 currencies also detracted as the US dollar appreciated in June.

Investment markets

Investment markets were somewhat mixed in June, risk markets generally stronger while, surpisingly, bond markets also rallied.

A higher than expected May CPI outcome in the US, +0.6% vs +0.5% expected, compounded the already high read in April, to see US core inflation hit 3.8% on a YoY basis, the highest level since 1992. In the UK, the BoE's Chief Economist warned colleagues that UK inflation was expected to end the year close to 4%. These numbers would typically see bond yields rising however previously positive signs around the Covid 19 vaccine rollout took a hit with the rapid growth in the Delta variant postponing the lifting of restrictions and complicating global travel.

In the US, agreement was reached on Biden's infrastructure deal with ~$600 billion of additional spending and no tax increases.

Portfolio positioning

PIMCO is maintaining its cautious view towards both interest rates and corporate credit, focusing on relative value positions and diversified alpha strategies. Within broader risk exposures, they maintain tactical tilts designed to benefit across a range of scenarios.

The Fund increased its underweight duration position versus the index with absolute duration now 6.6 years vs 7.5 years and focused on relative value between regions.

PIMCO still prefers US duration where they are slightly underweight versus the benchmark and they maintain a dollar bloc bias for its resilience should the global economy worsen. The Fund is maintaining more significant underweight positions to core Eurozone and UK duration given unattractive low yields and negative carry in some parts of the curve.

The Fund remains underweight to corporate credit generally, targetting financials and non-cyclicals.

Securitised assets remain PIMCO's preferred way to take spread exposure although they are now underweight to the Agency and Semi-government sectors, preferring the non-agency mortgage sector. The Fund remains long non-core Europe versus core Europe as ECB support continues to make further spread contraction likely.

Currency strategies are largely tactical or target portfolio diversification. We remain long a basket of emerging market currencies and also overweight some developed market currencies including AUD and GBP, all versus USD.

The Fund also has a small allocation to inflation linked bonds which are trading below fair value.

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Hunter Global Fixed Interest Fund
Investment Portfolio Characteristics

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Investment Statistics	
Effective Duration	6.6
Benchmark Duration	7.5
Average Maturity	9.2
Average Coupon	1.8
Average Quality	AA-
Total Carry	2.4

Quality Breakdown		
Market Value % Portfolio		Market Value % Benchmark
56.3	AAA	37.1
3.6	AA	15.2
18.7	A	31.4
16.5	BBB	16.2
4.9	Sub Inv Grade	0.0
100	Total	100

Curve Exposure				
Duration Weighted Exposure			Duration Weighted Exposure	
% Portfolio	% Benchmark		Years Portfolio	Years Benchmark
4.8	0.1	0 - 1 years	0.3	0.0
-1.4	6.5	1 - 3 years	-0.1	0.5
15.3	12.7	3 - 5 years	1.0	1.0
39.1	27.0	5-10 years	2.6	2.0
42.2	53.7	10+ years	2.8	4.0
100	100	Total	6.6	7.5

Regional Breakdown by currency of settlement)				
Duration Weighted Exposure			Duration Weighted Exposure	
% Portfolio	% Benchmark		Years Portfolio	Years Benchmark
2.9	1.4	Australia/NZ	0.2	0.1
18.1	16.9	Japan	1.2	1.3
17.8	24.3	Europe - EMU	1.2	1.8
6.9	1.3	Europe - Non EMU	0.5	0.1
3.4	7.6	United Kingdom	0.2	0.6
42.5	40.0	North America	2.8	3.0
7.4	6.8	Emerging Markets	0.5	0.5
1.0	1.7	Other	0.1	0.1
100	100	Total	6.6	7.5

Sector Breakdown				
Duration Weighted Exposure			Duration Weighted Exposure	
% Portfolio	% Benchmark		Years Portfolio	Years Benchmark
57.9	54.1	Government	3.8	4.1
2.0	8.4	Agency/Semi	0.1	0.6
11.3	7.8	Mortgage	0.7	0.6
8.9	17.9	Inv Grade Corp	0.6	1.3
1.3	0.0	High Yield Corp	0.1	0.0
14.6	11.8	Emerging Markets	1.0	0.9
4.0	0.0	Cash Equivalents	0.3	0.0
100	100	Total	6.6	7.5