

FUND COMMENTARY

# Purpose Global Bond Fund

FUND DETAILS

<b>ETF SERIES</b> MGMT FEES	<b>BND</b> 0.35%
<b>CLASS F</b> MGMT FEES	<b>PFC2101</b> 0.35%
<b>CLASS A</b> MGMT FEES	<b>PFC2100</b> 0.85%

INCEPTION DATE: **Oct 27, 2015**

FUND MANAGER

NEUBERGER BERMAN



**Norman Milner**  
MANAGING DIRECTOR

Founded in 1939 with a focus on deep fundamental research, Neuberger Berman Investment Advisers manages more than \$300-billion USD in assets today, primarily for institutional advisors. The firm takes a boots-on-the-ground approach, employing more than 600 investment professionals in 35 cities around the world

**We have positioned the portfolio to be somewhat more defensive, opening an opportunity to be somewhat more tactical in our risk-taking posture.**

THIRD QUARTER 2021 COMMENTARY

At the outset we believe it's important to point out that, in our view, investors have become accustomed to smooth sailing. We view this continued kind of environment as frankly unrealistic, and it is in our view unlikely to continue. Following the spectacular recovery from the pandemic lows in risk assets set nearly 18 months ago, the risk markets have had a rally which has been nothing short of breathtaking. Our perspective is that we are at an inflection point and, in our view, much of what is likely to drive these changes is not fully priced into the market.

**As we ended the second quarter, we set out our thoughts repeated below, setting out how we intended to position the fund. The main principles were:**

- Seek yield without duration risk
- Take advantage of reflation and allow this to lead to spread compression
- Lean into credit risk as fundamentals appear robust and large parts of the market appeared cheap

**The positioning reflected our belief that we were in the midst of a significant reflation of the global economy and that the recovery would be spurred by three main factors:**

- Monetary Stimulus
- Fiscal Stimulus
- Health Care Response

Reflecting on the heady days of March and April 2020, the monetary intervention on an unprecedented scale laid the foundation for the rally in risk. In the spirit of “never let a crisis go to waste,” politicians stepped into the breach and unleashed a fiscal response. Finally, the miraculous vaccination outcome aided the re-opening of the global economy.

As we end the quarter and start the last stretch of the year, we are becoming increasingly concerned that all three main factors may have played out for the most part. Perhaps more importantly, we believe that most of the good news is “in the price.” In addition, we believe that one by one, the pins supporting the rally have or are being revaluated by the market. To be clear, we are NOT bearish, nor do we believe that there is a significant correction coming. While we cannot rule out a correction, we are fairly convinced that the clear blue skies have darkened somewhat. Volatility is just unlikely to remain as subdued as it has been – at inflection points

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**We believe that should a sell off materialize, it is likely to become a buying opportunity – one that we have been speaking about and of which we were hoping to take advantage.**

it rarely does, and we believe we are at such a point. Accordingly, we have positioned the portfolio to be somewhat more defensive, opening an opportunity to be somewhat more tactical in our risk-taking posture.

**In arriving at the conclusion there are several signals that, in our opinion, are likely to darken the skies:**

- 1) The monetary stimulus will be slowly withdrawn. While this is going to be taken in baby steps, the FED has signalled its intention to reduce asset purchases. The ECB has sent more of a mixed signal, but the corporate bond purchases are, in our view, up for review. Furthermore, the FED dot plot has become more aggressive in forecasting rate hikes. At time of writing, the market is pricing up to 4 hikes over the next 18 months. This is being reflected in the global rates markets as us rates move higher and European rates follow.
  - 2) The fiscal situation has clouded somewhat in the US. The cantankerous political environment in the US is likely to make large-scale fiscal support increasingly difficult to pass or obtain. We have seen a dozen school children fight over a ball at playtime in a more cooperative manner than the US Congress.
  - 3) We see evidence of a peak in global growth. Growth estimates globally have been coming down for the last few weeks of September.
  - 4) The policies implemented by the Chinese government are likely to have a larger impact on further slowing global growth. We continue to be amazed that investors are aghast. We credit the government of China with being a government of its word. The policies it is implementing have been very accurately and
- openly laid out. The increased regulation is likely to continue. Whether it's the technology, gaming, or school sector increased regulatory oversight will likely grow and this is not a positive for growth. The regulatory environment is being instituted for societal outcomes, not a growth target. As China recalibrates its economy, the same forces that unleashed a deflationary labour and material price tsunami will likely be ending. This is a significant game changer, and we would be foolhardy this early in the process to be drawing firm conclusions. We are convinced, though, that these policies are likely to further crimp growth. The Evergrande debacle is simply a manifestation of government policy to cool down the property market. We do not believe, in of itself, that Evergrande is a global systemic event. Additionally, we wish this ‘China’s Lehman Moment’ rhetoric would grow up and move on. When you operate in a centralized economy, your levers are powerful. This situation is an unintended – or perhaps intended – consequence of not following policy.
- 5) So much for transitory. In a prior monthly letter, we edited out commentary that we would like vouchers from the FED for our daily coffee price increase, which we were certain would not be transitory. Atlanta Fed Governor Bostic shares our view. He has a “transitory swear jar” in his office that requires money to be put in when folks use the word transitory. While we are not robust “inflationistas,” the increases in commodity prices do require some attention. Much has also been written about supply shocks and there is not much we can add – it is worth noting that, for now, it does not look to help the deflation argument.

## FUND PERFORMANCE AND POSITIONING

As we reflect on the points above, the conclusion we have reached is that a more defensive posture is warranted. In addition, the rate markets globally appear to be recalibrating. Rates curves have become more volatile, pricing both longer dated changes as well the potential impacts of hikes. The ongoing higher inflation forces are also clearly playing a role in adding to the moves. We have run the fund with a rate duration of less than 3 years for most of this year. Not only were we not being paid for long dated risk, but that rate volatility would harm performance. For now, we do not intend to change that posture in any material way. Our perspective remains that rate risk and vol would pick up, and that we are not being paid to take that risk. In addition, we always want asset allocation and security selection as the drivers of return.

To reiterate the point made above, we are NOT bearish, but positioning should be more tactical. Our instinct

was to wait for this rate and growth volatility to cause credit volatility. Credit fundamentals remain robust, so our thinking has been that a rate shake out would cause selling in credit markets. In addition, technically positioning feels stretched. Said differently everyone is long!

### Taking into account all of this, we have done the following over the course of the last few weeks:

- Raised cash levels
- Rotated into positions we felt were more defensive
- Taken some of our higher beta exposures, particularly in HY and higher beta IG

Our views are about tactical changes, not wholesale structural or strategic changes. We believe that should a sell off materialize, it is likely to become a buying opportunity – one that we have been speaking about and of which we were hoping to take advantage. At this juncture, we believe that we have reduced risk appropriately and are in apposition to be dip buyers. The trick is to walk that fine line when changing risk

levels. We want to have dry powder to deploy, but not too much that it damages return. For now, the opportunity cost appears to be low and the upside high. We intend to remain patient and disciplined and, while we may begin to take advantage of some dislocations, a significant change in rate duration is unlikely and we will manage that exposure with futures.

This has been a challenging year for all of us. As the world opens up further and travel restrictions are further relaxed, we intend to start travelling to visit in person. We are back in our offices and, if all goes to plan, perhaps some of you may come visit over the holiday season. We would welcome the opportunity to host you in our offices.

We are humbled by the responsibility of managing your capital. Thank you for your continued support.

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## FUND PERFORMANCE

ALL PERFORMANCE DATA AS OF SEPTEMBER 30, 2021

PURPOSE GLOBAL BOND FUND	MTD	3 MONTHS	6 MONTHS	YTD	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
SERIES A	0.02%	-0.05%	1.91%	1.96%	7.00%	3.69%	1.88%	2.33%
ETF	0.09%	0.10%	2.20%	2.39%	7.61%	4.25%	2.42%	2.89%
SERIES F	0.08%	0.08%	2.18%	2.37%	7.58%	4.24%	2.41%	2.88%

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All data sourced from Bloomberg unless otherwise noted.

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