FRANKLIN TEMPLETON

Brandywine Global Opportunistic Fixed Income Fund PIE Fund

Fund Facts

Benchmark

Bloomberg Global Aggregate Bond Index, Hedged to New Zealand Dollars

Issuer & Manager

FundRock NZ Limited

Delegated Investment Manager

Brandywine Global Investment Management as appointed by Franklin Templeton Australia Limited

Strategy

The Fund invests in an actively managed portfolio of sovereign bonds, investment grade corporate bonds, mortgage securities, currencies and other similar securities. The Fund can also invest in emerging market debt, high yield debt, and below investment grade non-sovereign and corporate debt.

The Fund searches the globe for attractive real yield opportunities. The Fund is an alpha seeking, high conviction strategy with a 'go anywhere', opportunistic style with strict risk limits in place to avoid over-exposure to any one region or issuer. Combining bond and currency strategies, the Fund aims to deliver a truly global opportunity set for New Zealand fixed income investors.

The strategy seeks to capture interest income and additionally generate principal growth through capital appreciation when market conditions permit. The strategy seeks to earn a return (before fees and taxes) in excess of the Benchmark, the Bloomberg Global Aggregate Bond Index, Hedged to New Zealand Dollars, over rolling five-year periods.

What happened in the market?

Global bond yields rose strongly in December, particularly at the longer end of the yield curve. This reflected a hawkish shift in the rhetoric of several central banks, a rate hike from the Bank of Japan, as well as uncertainty about the direction of U.S. monetary policy in 2026.

In the US, the end of the U.S. Government shutdown resulted in the restoration of official US data in December. The U.S. Federal Reserve (Fed) cut its policy rate by 25 basis points (bps) as expected, however, the 9-3 vote marked the most dissents since 2019 as officials debated the need to support the labour market against concerns about inflation.

In the UK, while inflation remained above target, a weakening labour market and cooling wage pressures allowed the Bank of England (BOE) to cut interest rates to 3.75% in December.

Japanese government bonds was once again one of the worst-performing segments in fixed income in December. The Bank of Japan (BOJ) raised rates by 25bps to the highest level since 1995 and Japan's economy contracted for the first time since Q1 2024, driven by weak private consumption and falling exports.

The overall emerging market debt asset class rallied in December, benefitting from a softer U.S. dollar environment.

In credit markets, although U.S. investment-grade spreads sightly narrowed, the sector generated a negative total return. In contrast, high-yield and US mortgage-backed security generated a positive total return.

What happened in the Fund?

The Fund was down 0.38% (after fees) over the month of December. In comparison the benchmark as measured by the (Bloomberg Global Aggregate Bond Index (NZD)) was down 0.36% over the same period. Duration exposure was a negative contributor while currency positioning was positive.

An overweight position in U.K. Gilts was the strongest contributor to performance as the government announced a larger than expected fiscal headroom and a smaller-than-expected gilt remit for the year.

The Fund's U.S. Treasury exposure detracted from performance on concerns over the U.S. fiscal position and hawkish forward guidance from the Fed.

Within emerging market debt, an overweight Romanian duration was accretive against a backdrop of loosening U.S. monetary policy and elevated nominal yield spreads.

Within credit markets, our U.S. corporate exposure detracted as rising U.S. yields impacted credit markets.

Within active currency, an underweight position in the U.S. dollar was the strongest contributor to performance as concerns over the Fed's independence and fiscal deficits drove the greenback lower. In contrast, an overweight position in the Japanese Yen detracted as the BOJ remained vague on the exact timing and pace of future rate hikes.

What is the outlook?

Heading into the first quarter of 2026, we expect developed market bond yields to remain broadly range-bound, extending 2025's unusually quiet trading conditions, as improving growth impulses are offset by emerging labour-market fragility. Reduced tariff drag, supportive fiscal policy in major economies, and favourable financial conditions could underpin activity, but ongoing weakness in employment growth should limit the scope for a sustained move higher in yields and keep central banks attentive to downside risks.

Within this sideways global rates backdrop, we see meaningful cross-country divergence: U.K. gilt yields have further room to fall as the BOE responds to deteriorating labour conditions, disinflation, and fiscal drag, while Eurozone yields should drift higher on the lagged effects of prior European Central Banks easing and the impulse from Germany's multi-year fiscal stimulus making U.K. Eurozone spread compression a high-conviction view.

In currencies, we expect continued U.S. dollar weakness in 2026 as valuation remains stretched, relative growth converges after U.S. exceptionalism, global investors gradually reduce overweight U.S. dollar exposure, and rate differentials move against the dollar as the Fed stays dovish.

Emerging market local currency bonds remain supported by elevated real yields, attractive FX valuations, limited imbalances, and low foreign ownership, with additional upside potential in a softer U.S. dollar environment

Fund performance (%) as at 31 December 2025

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.
Fund (net)	-0.38	0.01	0.96	6.62	2.87
Benchmark	-0.36	0.39	1.27	3.73	4.44

The performance in this fact sheet is net of fees. Investors should also refer to the quarterly Fund Update, which is available on www.fundrock.com/fundrock-new-zealand and www.business.govt.nz/disclose. Past performance is not indicative of future performance.

Key features of the Fund

High conviction

Brandywine Global's conviction levels drive the composition of the Fund, not a benchmark.

Active management

Allows investors to gain overweight exposure to countries that are likely to outperform and underweight exposure to those who are likely to underperform.

Top down approach

That can capitalise on shifting geographic and macro trends.

Currency as a source of returns aims to take

Advantage of currency opportunities to enhance returns.

Superior risk adjusted returns

Designed to capture market upside but aiming to avoid market downside, and to provide long term performance.

Access to high real yields

With diversification outside of G3 countries.

Country Allocation (%) - Top 5

United States	52.73
United Kingdom	16.08
Mexico	10.56
New Zealand	5.83
Brazil	4.80

Sector Allocations (%)

Government Sovereign - DM	49.43	Cash	4.69
Government Sovereign - EM	21.53	Government Related	0.43
Mortgage Backed Securities	15.46	Derivatives	-1.87
Corporate	10.33		

Fund statistics

Fund size ($m) (NZD)	300.26
Average Effective Duration (years)	4.50
Weighted Average Maturity	12.88
Average Credit Quality	A+
Current Yield (%)	5.70
Number of issues	79

Meet the team

The Fund is led by an experience, long-tenured portfolio management team that includes:

David F. Hoffman, CFA

Managing Director & Portfolio Manager, with firm since 1995

Jack P McIntyre, CFA

Portfolio Manager, with firm since 1998

Anujeet Sareen, CFA

Portfolio Manager, with firm since 2016

Brian L. Kloss, JD, CPA

Portfolio Manager, with firm since 2009

Tracy Chen, CFA, CAIA

Portfolio Manager, with firm since 2008

Investment manager

Brandywine Global Investment Management, LLC ("Brandywine Global"), has built up significant experience across fixed income, equity and global portfolios that invest in international markets. Founded in 1986 by a group of highly experienced portfolio managers, Brandywine Global pursues one investment approach: value investing. Through practical experience, Brandywine has determined that value-style investing — whether in fixed income markets or equity — can provide excellent risk-adjusted returns over full investment cycles, and it is a particularly important strategy in today's global markets.