

Factsheet 28 February 2021

# NIKKO AM GLOBAL BOND STRATEGY

Assets are held in the Nikko AM NZ Wholesale Global Bond Fund. Nikko AM Global Bond Fund (retail) invests in units in the wholesale fund, which this commentary refers to.

## Market Overview (source: GSAM)

- Earlier this year, a rise in government bond yields had been concentrated in the US amid raised prospects for additional fiscal stimulus. In February, the sell-off became global in nature and has been real yield-oriented as markets respond to the growth recovery moving more clearly into focus amid vaccine rollouts.
- Central banks have leaned against market expectations for earlier policy normalisation to varying degrees, indicating policy will remain accommodative despite improvements in growth given weak underlying inflation dynamics.

## Fund Highlights

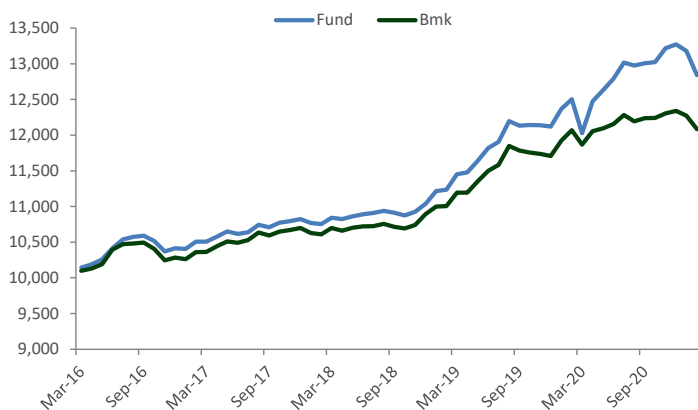
- The fund returned -2.58% for February, well behind benchmark. Cross-sector, country, and duration strategy negatively affected fund performance, as did government and emerging market allocations. Corporate allocations made a small positive contribution to performance.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	-2.58%	-2.86%	2.69%	6.09%	5.13%	6.11%
Benchmark <sup>2</sup>	-1.54%	-1.80%	0.11%	4.43%	3.86%	5.59%
Retail <sup>3</sup>	-3.13%	-3.35%	1.96%	5.07%	4.10%	

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.  
 2. Benchmark: Bloomberg Barclays Global Aggregate Index, hedged into NZD. No tax or fees.  
 3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

## Five Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Investment Manager

Nikko AM NZ uses Goldman Sachs Asset Management Australia Pty Ltd (GSAM) for the management of global fixed interest assets. Established in 1988, GSAM is one of the world's leading asset managers. GSAM's Global Fixed Income Team manages over US\$525 billion of global fixed income and currency assets.

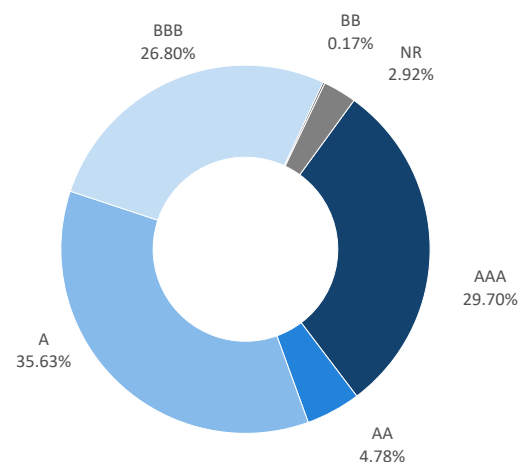
## Overview

The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

## Objective

The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three year period.

## Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	32.12%	46.45%
Agency	1.00%	8.47%
Collateralised & MBS	26.11%	11.15%
Credit	35.38%	20.34%
Emerging market debt	9.96%	13.59%
Cash, derivatives, other	-4.57%	0.00%

\*includes deferred settlements

Duration
Fund 8.74 years vs Benchmark 7.24 years

Yield to Maturity
Fund (gross) 2.15% vs Benchmark 1.19%

### Market Commentary (source: GSAM)

Earlier this year, a rise in government bond yields had been concentrated in the US amid raised prospects for additional fiscal stimulus. In February, the sell-off became global in nature and has been real yield-oriented as markets respond to the growth recovery moving more clearly into focus amid vaccine rollouts.

Central banks have leaned against market expectations for earlier policy normalization to varying degrees, indicating policy will remain accommodative despite improvements in growth given weak underlying inflation dynamics. We think market-implied pricing for central bank rate hikes is premature and inconsistent with underlying inflation dynamics, central bank reaction functions, and central bank forward guidance. On a cross-market basis, we are positioned for convergence between ‘high rate’ and ‘low rate’ markets.

Notwithstanding rate market volatility, credit markets have proved resilient. We are overweight corporate credit though we have scaled back exposure. We reduced our Agency MBS sector overweight and are roughly flat. In emerging market (EM) debt, we reduced many overweight positions though we maintain select exposures.

### Fund Commentary (source: GSAM)

The portfolio underperformed its benchmark over the month, driven by our Cross-Sector and Country strategies whilst our Corporate Selection strategy contributed to performance. Our Cross-Sector strategy was the main detractor from excess returns, driven by our credit-rate paired approach where overweight exposure to credit sectors is hedged with a long US rates position. The rates component detracted from performance as US rates experienced a rapid sell-off amidst the market pricing in expectations for earlier central bank policy normalization. Our Country strategy also underperformed, mainly owing to our overweight exposure to Australian rates on a cross-market basis. Technical and idiosyncratic factors reinforced a rise in Australian yields. Australian yields experienced a sharp sell-off on speculations around RBA’s commitment to yield curve control and market anticipation of hawkish RBA tones. Our Corporate Selection strategy outperformed driven by our specific issuer selection, primarily in within IG industrials.

### Key Fund Facts

#### Distributions

Wholesale fund: Calendar quarter  
Retail fund: Calendar quarter

#### Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of unit price  
Retail: 0.84%, refer PDS for more details

#### Hedging

All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.

#### Buy / Sell spread

0.00% / 0.00%

#### Strategy size

\$402.5m

#### Strategy Launch

October 2008

**Exclusions:** Investments in tobacco manufacturers and ‘controversial weapons’. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

### Compliance

The Fund complied with its investment mandate and trust deed during the month.

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