Factsheet 30 June 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)

- Fixed income markets remain focused on central bank reaction functions and the transitory-or-persistent inflation debate.
- Spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 2bps to 86bps over sovereigns over the quarter. Intra-quarter, spreads widened to 91bps in April.
- Given the strong growth backdrop and relative value opportunities, investment grade corporate bonds remain well supported.

Fund Highlights

- The portfolio outperformed its benchmark over the month and quarter ended June. Cross sector and country allocation added value (+38bps) as did security selection within the investment grade corporate sector (+12bps).
- Duration strategy was a small detractor (5bps) as was security selection within the government/swaps (8bps) and securitised sectors (19bps).

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.

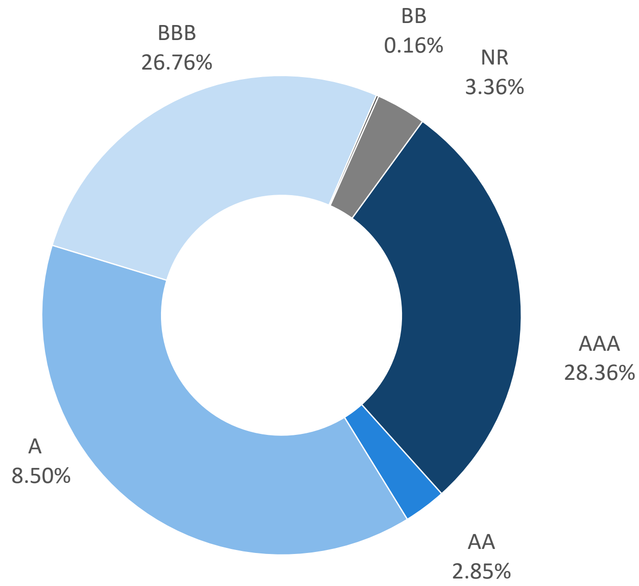
Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.58%	1.41%	1.59%	6.07%	4.52%	6.05%
Benchmark[2]	0.51%	1.01%	0.01%	4.28%	3.18%	5.40%
Retail[3]	0.43%	1.19%	0.63%	5.13%	3.55%	

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[1, 2]

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	35.09%	46.19%
Agency	1.58%	8.33%
Collateralised & MBS	26.28%	11.37%
Credit	31.84%	20.37%
Emerging market debt	12.00%	13.73%
Cash, derivatives, other	-6.79%	0.00%

*includes deferred settlements

Duration
Fund 7.57 years vs Benchmark 7.31 years

Yield to Maturity
Fund (gross) 2.08% vs Benchmark 1.22%

Market Commentary (source: GSAM)

Fixed income markets remain focused on central bank reaction functions and the transitory-or-persistent inflation debate. The June Federal Open Market Committee (FOMC) meeting indicates US policymakers are mindful of increases in inflation and inflation expectations. The Fed surprised markets with a hawkish shift at its June meeting. Recent economic data, particularly in the US, have led to a recalibration in growth expectations from a V+ to a V-shaped path given the moderation in data momentum following an initial burst of activity. The growth reassessment may also reflect concerns around the spread of the delta variant and sooner-than-anticipated withdrawal of policy support.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month and quarter ended June.

The cross sector strategy was the largest contributor. Our credit-rate barbell performed well. In June rates markets were driven by the hawkish outcome of the Fed FOMC meeting. A combination of the hawkish dot plot and upbeat tone led to a sharp repricing of Fed policy, with front-end US Treasury yields rising, while long-end yields rallied due to a lower market assessment of the neutral rate. Our sector overweight in investment grade (IG) corporates also contributed positively as IG spreads remained resilient. Spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 2bps to 86bps over sovereigns over the quarter. (Intra-quarter, spreads widened to 91bps in April). We remain overweight the sector given the macro backdrop, relative value opportunities, and supportive technicals. Within our corporate selection strategy, excess returns were driven by our down-in-credit-quality bias and our credit curve positioning. We continue to position our exposure to overweight intermediate maturity bonds versus longer-dated corporates. We also believe that there will be more rising stars than fallen angels – and therefore retain our down-in-quality bias.

Our Securitized Selection strategy was the largest detractor over the quarter, driven by our overweight Ginnie Mae MBS versus Fannie Mae MBS positioning. Ginnie Mae MBS have recently underperformed due to faster than expected prepayment speeds.

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: 0.80%, 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	Strategy size	Strategy Launch
0.00% / 0.00%	$433.5m	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 quarter.

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