

Factsheet 31 July 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)

- Rates rallied in July amid virus concerns in low vaccination countries, a dovish interpretation of the European central bank's (ECB) strategy review and technical factors such as investor positioning and low summer trading volume. Fixed income spread sectors were relatively resilient and new issuance activity remained robust.
- The US Federal Reserve (Fed) kept policy unchanged at its July meeting. We expect the Fed to announce its decision to taper asset purchases in November or December. The Reserve Bank of New Zealand (RBNZ), the Bank of Canada (BoC) and the Bank of England (BoE) set the stage for the withdrawal of easy policy. We are closely monitoring central bank policies as the economic recovery progresses.

Fund Highlights

- The portfolio outperformed its benchmark over the month of July, driven by our Cross Sector and Duration strategies whilst our Government/Swap Selection strategy detracted from excess returns.
- Excess returns within our Cross Sector strategy were driven by our credit-rate paired approach. Our rates hedge performed well over the month as rates continued to rally amid growth outlook reassessment and concerns on the Delta virus variant.
- Our Government/Swap Selection strategy was the main detractor over the month, owing to our underweight European inflation versus term premia as well as our underweight UK and US inflation positions.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	1.39%	2.28%	1.22%	6.49%	4.57%	6.07%
Benchmark ²	1.25%	2.01%	0.22%	4.70%	3.28%	5.40%
Retail ³	1.34%	2.03%	0.29%	5.58%	3.66%	

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}



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.

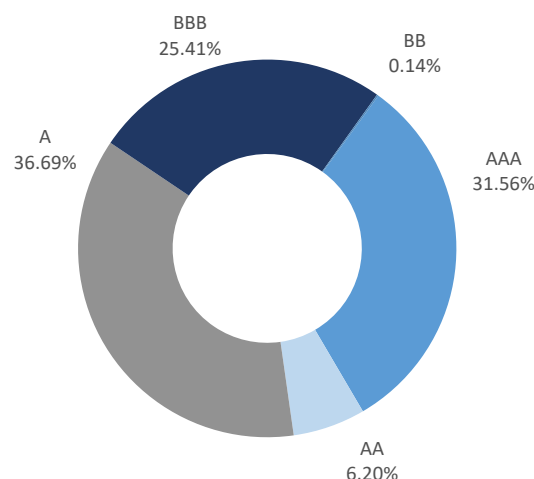
Overview

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	34.27%	46.51%
Agency	1.98%	8.31%
Collateralised & MBS	24.84%	11.30%
Credit	31.44%	20.24%
Emerging market debt	11.35%	13.65%
Cash, derivatives, other	-3.88%	0.00%

*includes deferred settlements

Duration
Fund 6.93 years vs Benchmark 7.37 years

Yield to Maturity
Fund (gross) 1.80% vs Benchmark 1.17%

Market Commentary (source: GSAM)

Rates rallied in July amid virus concerns in low vaccination countries, a dovish interpretation of the European central bank’s (ECB) strategy review and technical factors such as investor positioning and low summer trading volume. Fixed income spread sectors were relatively resilient and new issuance activity remained robust. The US Federal Reserve (Fed) kept policy unchanged at its July meeting. We expect the Fed to announce its decision to taper asset purchases in November or December. The Reserve Bank of New Zealand (RBNZ), the Bank of Canada (BoC) and the Bank of England (BoE) set the stage for the withdrawal of easy policy. We are closely monitoring central bank policies as the economic recovery progresses.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of July, driven by our Cross Sector and Duration strategies whilst our Government/Swap Selection strategy detracted from excess returns.

Excess returns within our Cross Sector strategy were driven by our credit-rate paired approach. Our rates hedge performed well over the month as rates continued to rally amid growth outlook reassessment and concerns on the Delta virus variant. At the same time, credit spreads remained relatively range bound in July, which supported our overweight credit positioning. We remain overweight corporate credit but following the recent rally in rates, we have reduced the amount.

Our Duration strategy also contributed to performance, owing to our tactical positioning in US rates as well as our overweight short-end Australian and Canadian rates positions. These exposures performed well on the back of the US-led global rate rally. Additionally, in Canada, the latest Bank of Canada meeting outcome was less hawkish than expected. The central bank tapered asset purchases further (as expected) but sounded more balanced on the broader macro and policy outlook. Elsewhere, Australian rates outperformed on renewed lockdowns in Australia and the RBA meeting minutes that suggested a willingness to delay the pre-announced QE tapering.

Our Government/Swap Selection strategy was the main detractor over the month, owing to our underweight European inflation versus term premia as well as our underweight UK and US inflation positions. These positions underperformed as the European rates curve flattened and as the theme of strong inflation in the US and the UK continued.

Key Fund Facts			
Distributions		Estimated annual fund charges (incl. GST)	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.80%, refer PDS for more details
Hedging		Buy / Sell spread	Strategy size
All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.		0.00% / 0.00%	\$450.7m
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 .		Strategy Launch	October 2008

Compliance

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

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