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Nikko Asset Management

Factsheet 28 February 2022

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)

- Geopolitical tensions added uncertainty to an already complex investment backdrop of high inflation and hawkish policy. Sovereign bond yields rallied in response.
- We expect the Fed to deliver six rate hikes this year, followed by balance sheet unwinding in the third quarter.
- Volatility in credit markets continued. High yield credit face significant headwinds in the near term due to the ongoing Russian invasion of Ukraine and front-end rate volatility.
- Emerging market debt performance was negatively impacted by the escalation of tensions between Russia and Ukraine.

Fund Highlights

- The portfolio underperformed the benchmark over the month of February. The underperformance was driven by our Cross Sector and Country Strategies, whilst our Duration strategy was the largest contributor.

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.

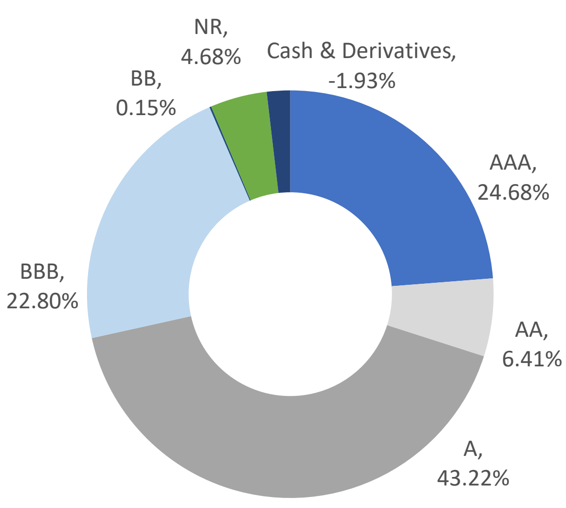
Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-1.86%	-3.45%	-1.92%	3.88%	3.69%	5.00%
Benchmark[2]	-1.25%	-3.19%	-1.98%	2.48%	2.71%	4.41%
Retail[3]	-2.27%	-3.80%	-2.68%	2.90%	2.71%	

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



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Sector Allocation (% of fund)	Fund	Index
Governments	33.75%	46.18%
Agency	1.41%	8.08%
Collateralised & MBS	25.93%	11.77%
Credit	27.75%	19.60%
Emerging market debt	13.09%	14.32%
Cash, derivatives, other*	-1.93%	0.05%

*includes deferred settlements

Duration
Fund 7.25years vs Benchmark 7.24 years

Yield to Maturity
Fund (gross) 3.44% vs Benchmark 2.56%

Market Commentary (source: GSAM)

Geopolitical tensions added uncertainty to an already complex investment backdrop of high inflation and hawkish policy. Sovereign bond yields rallied in response. Despite the heightened upside inflation risks brought by Russia's invasion of Ukraine, markets are pricing less cumulative tightening by the major central banks and the near-term prospects of 50-basis-point (bp) rate hikes by the Federal Reserve (Fed) and the Bank of England (BoE) have continued to diminish. We expect the Fed to deliver six rate hikes this year, followed by balance sheet unwinding in the third quarter. Despite elevated inflation data in Europe, we do not expect the European Central Bank (ECB) to proceed with its earlier plan to accelerate the tapering of quantitative easing (QE) and set a target date for the end of QE at the upcoming March meeting.

Fund Commentary (source: GSAM)

Volatility in credit markets continued in February but we continue to maintain a bias to be long investment grade credit. We believe that total returns for high yield credit face significant headwinds in the near term due to the ongoing Russian invasion of Ukraine and front-end rate volatility. However, we believe that positive corporate fundamentals, relatively attractive carry and benign default rates will support the asset class in the medium to long term. Emerging market debt performance was negatively impacted by the escalation of tensions between Russia and Ukraine.

The portfolio underperformed the benchmark over the month of February. The underperformance was driven by our Cross Sector and Country Strategies, whilst our Duration strategy was the largest contributor. Our Cross Sector strategy was the largest detractor, owing to our overweight in investment grade corporate credit. Credit spreads widened over the month, driven by concerns that central banks would have to hike interest rates faster than expected in order to tackle the higher-than-expected inflation data. Volatility was exacerbated by the escalation in tensions between Russia and Ukraine and the severe sanctions imposed on Russian assets further negatively impacted risk assets. Our Country strategy also detracted, driven by our long-end valuation strategy, particularly our overweight exposure to European rates (rates sold off particularly amid strong European data). Our overweight Australian versus Canadian and US rates trades also detracted as Australian rates underperformed on a relative basis. Within our Duration strategy, our tactical auction strategy and our underweight in US front-end rates contributed. Our underweight position benefitted from US yield curve flattening in February.

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%	$464.5m	October 2008

Restrictions: Thermal coal mining and extraction, oil tar sands extraction, 'controversial weapons', tobacco stocks and fossil fuels. 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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