nikko am
Nikko Asset Management

Factsheet 30 April 2023

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)

- Developed market (DM) rates oscillated through April on mixed economic data and fluctuating banking sector developments. Although yield levels remained broadly unchanged on the month, sticky inflation data, signs of moderating growth and lingering concerns of credit tightening saw volatile swings within rates markets.

Fund Highlights

- The portfolio outperformed its benchmark over April. This was driven by our Cross Sector and Government/Swaps selection strategy, respectively. By contrast, our Country strategy detracted from excess returns.

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. The Goldman Sachs Asset Management Global Fixed Income Team managed over US$690 billion of global fixed income and currency assets (as at 30th September 2022).

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.

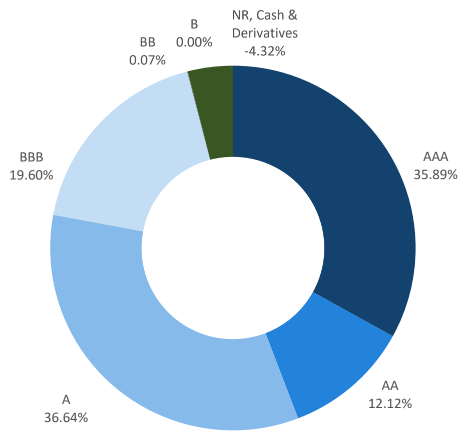
Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.58%	0.90%	-1.27%	-1.86%	1.73%	3.38%
Benchmark[2]	0.51%	0.96%	-1.50%	-2.72%	0.81%	2.83%
Retail[3]	0.25%	0.35%	-2.79%	-2.75%	0.77%	

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	36.96%	44.94%
Agency	1.60%	7.89%
Collateralised & MBS	35.72%	11.97%
Credit	25.68%	20.02%
Emerging market debt	4.50%	15.03%
Cash, derivatives, other*	-4.46%	0.15%

*includes deferred settlements

Duration
Fund 5.98 years vs Benchmark 6.75 years

Yield to Maturity
Fund (gross) 5.78 % vs Benchmark 5.22%

Market Commentary (source: GSAM)

Developed market (DM) rates oscillated through April on mixed economic data and fluctuating banking sector developments. Although yield levels remained broadly unchanged over the month, sticky inflation data, signs of moderating growth and lingering concerns of credit tightening saw volatile swings within rates markets. DM central banks continued to express a tightening bias, though opting for data dependent approaches. Monetary policy has been fairly synchronized across DM central banks since the onset of the pandemic, with rapid easing in 2020 followed by aggressive tightening since late 2021. We expect the end to the hiking cycle to be staggered and the next phase of policymaking to be mixed, in part due to varied economic data and housing situations. With inflation still more than double its 2% target, we expect the Fed to maintain a hawkish stance even as it pauses rate actions in the coming months, absent a material deterioration in either economic or credit conditions. Recent data also reinforce our expectation for market-implied pricing for rate cuts this year to be unwound. Lastly, we maintain our view that absent a turn in the global economic cycle, we anticipate the BoJ's Yield Curve Control program to be tweaked further or abandoned, and also see potential for a rate rise later this year.

Despite ongoing banking sector stress and new sources of uncertainty, such as a looming US debt ceiling deadline, fixed income returns remained resilient in April. Better-than-expected earnings and robust technicals supported global investment grade (IG) and US high yield (HY) spreads, narrowing by 5bps and 3bps, respectively. Elsewhere, the US dollar depreciated while G10 currencies were mixed against the greenback.
We remain of the view that evolving market environments, such as higher inflation and elevated volatility, suggest active strategies may better deliver alpha. We have adjusted our spread sector and the extent to which we balance these exposures, with rates, over the month. Our stance on fixed income spread sectors is the most conservative it has been since early 2019. We also think an adjustment in our exposure to a more cautious stance at today's valuations places us in a better position to opportunistically add exposure to spread sectors as risk premiums increase.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over April. This was driven by our Cross Sector and Government/Swaps selection strategy, respectively. By contrast, our Country strategy detracted from excess returns. Positive contribution from our Cross Sector strategy were driven by our overweight beta to collateralized loan obligations (CLO) and investment grade corporate credit. AAA-rated and BBB-rated CLO spreads tightened by 9bps and 11bps, respectively while IG spreads narrowed by 5bps. Our Government/Swaps selection strategy also contributed. This was driven by our US steepener and European butterfly position where we are overweight intermediate and underweight shorter- and longer-dated parts of the curve. Indeed, the US curve steepened over April while in Europe, short-end rates underperformed on a hawkish ECB and as markets priced a higher-for-longer monetary policy narrative for the central bank. Elsewhere, our Country strategy underperformed. This was primarily driven by our cross-market UK positions including our overweight UK versus Japanese and US rates positions. UK rates underperformed on stronger-than-expected labour market and inflation data while the BoJ kept policy unchanged at their April meeting, challenging our position.

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%	$479m	October 2008

Exclusions: Controversial weapons.
Restrictions: Thermal coal mining and extraction, oil tar sands extraction, tobacco stocks and fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website https://www.nikkoam.co.nz/invest/retail.

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com