

Factsheet 30 June 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)

- Financial markets closed the quarter on a positive note as investors moved to price in an increasing likelihood that the US will avoid a recession and the US Federal Reserve (Fed) will stop tightening.
- Persistent inflation has pulled some central banks back into hiking mode.
- Over the quarter the US Federal Reserve, the European Central bank, the Bank of England, the Bank of Canada, the Reserve Bank of Australia and the Reserve Bank of New Zealand all raised their official cash rates.
- Economic resilience remained top of mind over June - better than expected retail sales and home sales, US employers added 209,000 jobs (June), albeit below expectations of 230,000 and the unemployment rate fell from 3.7% to 3.6%.

## Fund Highlights

- The fund outperformed the benchmark by 13 Basis points (Bps) over the quarter. The main contributors were Emerging Market Debt (+10bps), Government/swaps (+8bps), Investment Grade Corporate (+5bps). The main detractors were Duration Management (-14bps) and Country Allocation (-7bps).

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	-0.08%	0.19%	1.35%	-2.80%	1.53%	3.63%
Benchmark <sup>2</sup>	-0.04%	0.06%	-0.26%	-3.12%	0.61%	3.05%
Retail <sup>3</sup>	0.22%	0.13%	0.83%	-3.60%	0.68%	

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. 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).

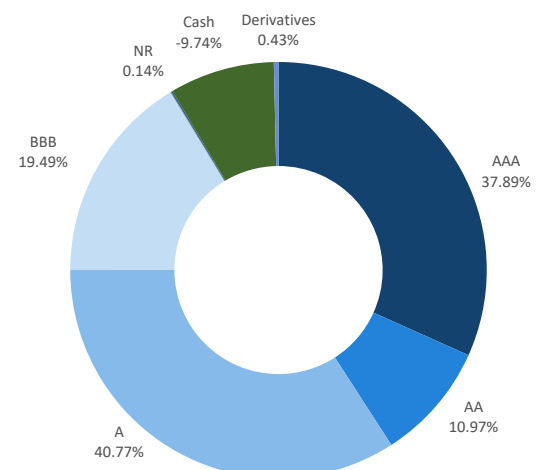
## Overview

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.

## Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	35.09	44.49
Agency	1.58	7.89
Collateralised & MBS	37.95	11.97
Credit	30.16	20.23
Emerging market debt	4.53	15.27
Cash, derivatives, other*	-9.31	0.15

\*includes deferred settlements

Duration
Fund 6.16 years vs Benchmark 6.73 years

Yield to Maturity
Fund (gross) 6.02 % vs Benchmark 5.53%

### Market Commentary (source: GSAM)

Financial markets closed the first half of the year on a positive note as investors moved to price in an increasing likelihood that the US will avoid a recession (at least for now) and the US Federal Reserve (Fed) will stop tightening, while pricing out tail risks (such as US debt ceiling uncertainty, regional banks turmoil and domestic political volatility in Russia). As such, spread sectors responded favourably. Entering the second quarter, we thought central banks were entering their final innings on tightening actions. But persistent inflation has pulled central banks in economies like Australia and Canada back into hiking mode, and the Fed pause in June will likely be followed by another hike in July. Our base case expectation is for two further rate hikes in the US for a terminal rate of 5.50-5.75%, and we expect the European Central Bank (ECB) to continue hiking into the third quarter toward a terminal rate of 4.0%. Our most hawkish reassessment for monetary policy is in the UK; we think the Bank of England (BoE) may lift rates to 5.75% with risks skewed towards even more tightening. We also remain of the view that firming domestic inflation coupled with the global rate environment will lead the Bank of Japan (BoJ) to normalize policy at some point this year, starting with a widening of the 10-year yield curve control band, potentially followed by an exit from a negative policy rate at a later stage.

### Fund Commentary (source: GSAM)

The fund outperformed the benchmark over the quarter. The main contributors were Emerging Market Debt (+10bps), Government/swaps (+8bps), Investment Grade Corporate (+5bps). The main detractors were Duration Management (-14bps) and Country Allocation (-7bps).

We remain up-in-quality in our investment exposures, with a preference for investment grade (IG) corporate bonds, as well as agency mortgage-backed securities (MBS). We also believe a restored allocation to core fixed income can help to balance portfolios through episodes of bearish sentiment given higher yields have significantly strengthened the protective power and income benefits of high-quality government and corporate bonds. Structurally, we see significant investment potential in green bonds as a critical source of financing for the energy transition. We also believe demographic tailwinds for Asian powerhouses like India and Indonesia will continue to create investment opportunities in emerging market corporate bonds.

<b>Key Fund Facts</b>			
<b>Distributions:</b>		<b>Estimated annual fund charges (incl. GST)</b>	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.80%, refer PDS for more details
<b>Hedging:</b>	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.	<b>Buy / Sell spread</b>	<b>Strategy size</b>
		0.00% / 0.00%	\$483.4m
<b>Exclusions:</b>	Controversial weapons.	<b>Strategy Launch</b>	October 2008
<b>Restrictions:</b>	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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .		

### Compliance

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

### Contact Us

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