Nikko Asset Management

Factsheet 31 August 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)

- Resilient US economic data and an expectation that policy rates will stay higher-for-longer sent developed market sovereign bond yields soaring higher at the start of August.
- The 10-year US Treasury yield hit 4.36% on August 22—the highest level since 2007.
- Fitch downgraded the long-term sovereign rating of the US from AAA to AA+, reflecting governance and medium-term fiscal challenges.
- The ascent in bond yields and weaker growth signals out of Europe and China challenged risk asset performance towards the end of the summer.

Fund Highlights

- The fund slightly outperformed its benchmark over August.
- This outperformance was driven by our Emerging market debt (EMD) selection and Duration strategies, respectively.
- Our Securitized selection strategy underperformed.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.07%	0.17%	1.14%	-3.18%	1.49%	3.59%
Benchmark[2]	-0.16%	-0.14%	-0.18%	-3.26%	0.52%	2.99%
Retail[3]	-0.24%	0.37%	-0.15%	-3.94%	0.62%	

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.

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

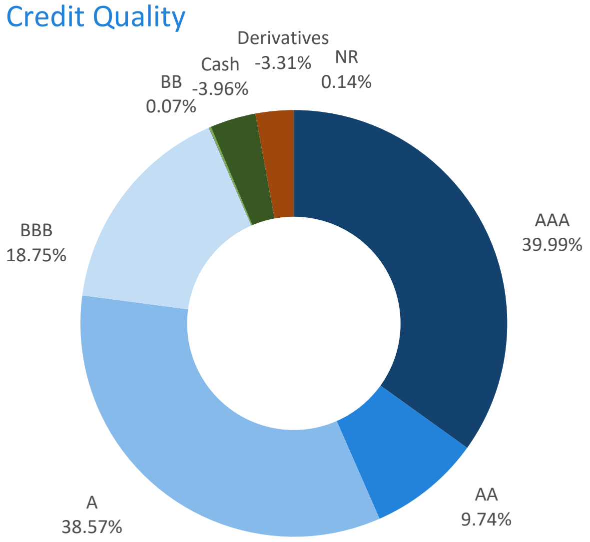
The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

Objective

The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Five Year Cumulative Performance, $10,000 invested[1, 2]

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	32.67%	44.40%
Agency	1.59%	7.85%
Collateralised & MBS	40.23%	11.92%
Credit	28.20%	20.27%
Emerging market debt	4.59%	15.56%
Cash, derivatives, other*	-7.27%	0.00%

*includes deferred settlements

Duration
Fund 6.13 years vs Benchmark 6.61 years

Yield to Maturity
Fund (gross) 5.45 % vs Benchmark 5.44%

Market Commentary

At the recent Jackson Hole Economic Symposium, developed market (DM) policymakers endorsed a tightening bias albeit with a strong tilt towards data dependence. US Federal Reserve (Fed) Chair Powell noted that the Federal Open Market Committee (FOMC) will "proceed carefully". We think this means the Fed will pause rate actions in September. By November, we think confidence in the disinflation progress will lead the Fed to conclude that July marked the final hike. We also think the European Central Bank (ECB) will pause in September to digest more data. By contrast, we see the Bank of England (BoE) pressing ahead with a 25bps rate hike in September, taking the Bank Rate to 5.5%. That said, we acknowledge that the terminal rate in the UK remains uncertain given continued strength in wage growth owing to structural labour supply issues.

Resilient US economic data and an expectation that policy rates will stay higher-for-longer sent DM sovereign bond yields soaring higher at the start of August. The 10-year US Treasury yield hit 4.36% on August 22—the highest level since 2007. Ratings actions, thin summer trading activity and high new supply also contributed to the rise in yields.

The ascent in bond yields and weaker growth signals out of Europe and China challenged risk asset performance towards the end of the summer, with most fixed income sector spreads closing August wider, despite better-than-feared second quarter earnings and ongoing resilience in the US economy.

Elsewhere, ratings agency Fitch downgraded the long-term sovereign rating of the US from AAA to AA+, reflecting governance and medium-term fiscal challenges. Subsequently, Moody's took ratings action on 27 US banks in response to profitability concerns, low regulatory capital among regional banks compared to larger banks and global peers, and potential losses on loans particularly for those with large commercial real estate (CRE) exposure. We do not consider the actions to reflect new information; the relatively muted financial asset response suggests markets agree.

Fund Commentary (source: GSAM)

The fund outperformed its benchmark in August. This was driven by our Emerging market debt (EMD) selection and Duration strategies, respectively. By contrast, our Securitized selection strategy detracted from performance.

Positive contributions from our EMD selection strategy were driven by our preference to hold local China rate exposure via interest rate swaps versus cash bonds.

Our Duration strategy also contributed to performance. This was driven by our US forward steepener position. A stable outlook for the Fed kept front-end yields anchored, while new supply, low liquidity and firm data lifted term premium in longer-dated bonds, causing the US curve to bear steepen, this is where the yield curve widens caused by long-term interest rates increasing faster than short term rates.

Lastly, our Securitized selection strategy underperformed. This was driven by our specific selection among agency mortgage-backed securities (MBS) passthrough securities. We maintain preference to Ginnie versus Fannie Mae Mortgage Backed Securities given historically attractive valuations and our outlook on technical dynamics.

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%	$493.1m	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

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