Factsheet 30 September 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)

- September was a weak month for fixed income assets as markets anticipated a higher-for-longer US Federal Reserve (Fed) rate regime.
- The 10-year US Treasury yield breached 4.5% while the longer-dated 30-year yield rose by around 50bps.
- The selloff in global bonds challenged risk assets over the quarter.
- Concerns around China's economy were top of mind over Q3 but we believe China faces a challenging but manageable journey ahead.

Fund Highlights (Quarter)

- Returns from global bonds were negative over the quarter although the fund outperformed over the quarter.
- Positive contributors to performance over the quarter were duration management (+26bps), allocation to emerging markets debt (+14bps),government and swaps (+13bps) and country allocation (10bps).
- The main detractors were securitised (-16bps) and cross sector allocation (-14bps).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-1.82%	-1.58%	3.52%	-3.85%	1.16%	3.30%
Benchmark[2]	-1.71%	-1.82%	1.67%	-3.93%	0.25%	2.72%
Retail[3]	-2.02%	-1.87%	2.53%	-4.68%	0.28%	

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. 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).

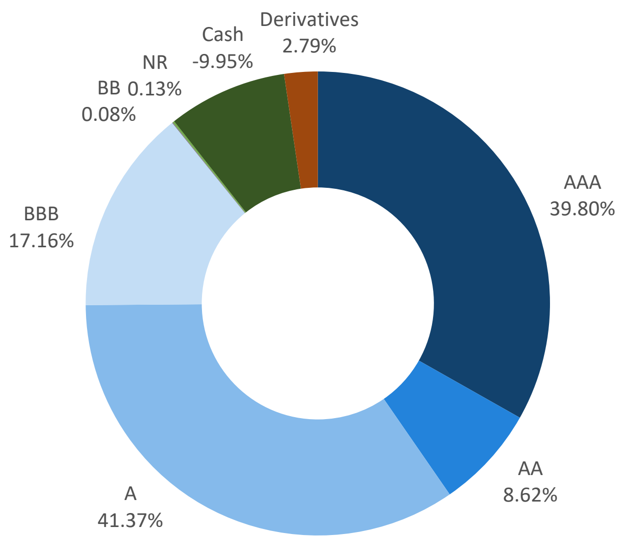
Overview

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	36.63%	44.24%
Agency	1.44%	7.83%
Collateralised & MBS	40.01%	11.89%
Credit	24.80%	20.31%
Emerging market debt	4.29%	15.73%
Cash, derivatives, other*	-7.16%	0.00%

*Includes deferred settlements

Duration
Fund 6.08 years vs Benchmark 6.5 years

Yield to Maturity
Fund (gross) 5.76 % vs Benchmark 5.72%

Market Commentary

September was a weak month for fixed income assets as markets anticipated a higher-for-longer US Federal Reserve (Fed) rate regime. Big picture - the 10-year US Treasury yield has risen sharply over the past few months driven by a mixture of factors including rising growth optimism, new supply, and rating downgrades. Notably, the 10-year yield breached 4.5% while the longer-dated 30-year yield rose by around 50bps. In recent weeks, concerns over higher commodity prices also drove yields higher. In our view, each of the multiple drivers may have contributed to the rise in yields though it is difficult to ascertain the dominant driver. The selloff in global bonds challenged risk assets over the quarter. That said, better-than-feared second quarter earnings, news of cooling inflation and ongoing economic resiliency kept spreads in check. US investment grade (IG) spreads narrowed by 6bps over the quarter while emerging market (EM) external spreads remained broadly unchanged. Elsewhere, concerns around China's economy were top of mind over Q3. Weaker-than-expected data reflected a short-lived service sector rebound from the beginning of the year as well as weak exports and an ongoing property sector slump. We think easing announcements made over the quarter across property, monetary and fiscal policies suggest policymakers are committed to an orderly deleveraging process in the property market. Overall, while China's growth reorientation may present investment opportunities, investors must also navigate headwinds posed by its deleveraging process, demographic shifts and geopolitical tensions. In conclusion, we believe China faces a challenging but manageable journey ahead.

Our investment stance is characterized by a degree of cautiousness. We maintain moderate exposure to macro markets and are alert to cross-market opportunities that may arise due to divergent central bank paths. Meanwhile, our asset allocation among fixed income spread sectors remains up-in-quality. Looking ahead, we think further disinflation progress combined with higher term premium will improve the protective value of US rates when paired with spread sector exposures.

Fund Commentary (Quarter) (source: GSAM)

Returns from global bonds were negative over the quarter although the fund outperformed over the quarter. Positive contributors to performance over the quarter were duration management (+26bps), allocation to emerging markets debt (+14bps) and government and swaps (+13bps) and country allocation (10bps). The main detractors were securitised (-16bps) and cross sector allocation (-14bps).

Contribution from our Duration strategy was driven by our US forward steepener position and underweight to Japanese rates. Front-end US rates remained relatively rangebound on anticipation of the US Federal Reserve (Fed) reaching its terminal rate this cycle while long-end 30-year US Treasury yields rose significantly. New supply, low liquidity and firm data lifted yields in longer-dated bonds, causing the US curve to steepen. The Bank of Japan (BoJ) unexpectedly tweaked its yield curve control (YCC) policy into July-end, effectively widened the band to +1%, which supported our positioning. Our EMD selection strategy also contributed to excess returns. This was driven by our preference to hold local China rate exposure via interest rate swaps versus cash bonds.

Detraction of our Securitized selection strategy was driven by our specific selection among agency mortgage-backed security (MBS) passthroughs. More specifically, our bias towards Ginnie versus Fannie Mae MBS detracted as technical factors in addition to rate volatility led to a widening of the spread basis between Ginnie Mae and Fannie Mae MBS. Our Cross-sector strategy was also impacted negatively by MBS, reversing gains in July from overweight investment grade credit and collateralised loan obligations.

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
0.00% / 0.00%

Strategy size
$516.8m

Strategy Launch
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 quarter.

Contact Us

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