YOUR GOALS, OUR COMMITMENT.

Nikko AM Global Bond Strategy

Monthly Update 30 November 2023

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

- November saw the largest easing in US financial conditions of any month within the past 40 years. The loosening was largely led by a rally in rates with the 10-year US Treasury yield ending the month 60bps lower.
- The Bloomberg US Aggregate Bond Index gained 4.5% in November, the best month since May 1985.
- The Fed and Bank of England (BoE) kept policy rates unchanged at their early November meetings despite retaining a tightening bias and pushing back against premature rate cuts.

Fund Highlights

- The fund returned 3.65% in November, which was 39 basis points (bps) better than the benchmark return of 3.26%.
- Outperformance was driven by our Cross-Sector and Securitized selection strategies, respectively. By contrast, our Duration strategy detracted from excess returns.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	3.65%	1.03%	3.36%	-3.45%	1.72%	3.44%
Benchmark[2]	3.26%	0.73%	2.13%	-3.32%	0.70%	2.85%
Retail[3]	4.00%	1.35%	3.39%	-4.07%	0.96%	2.55%

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).

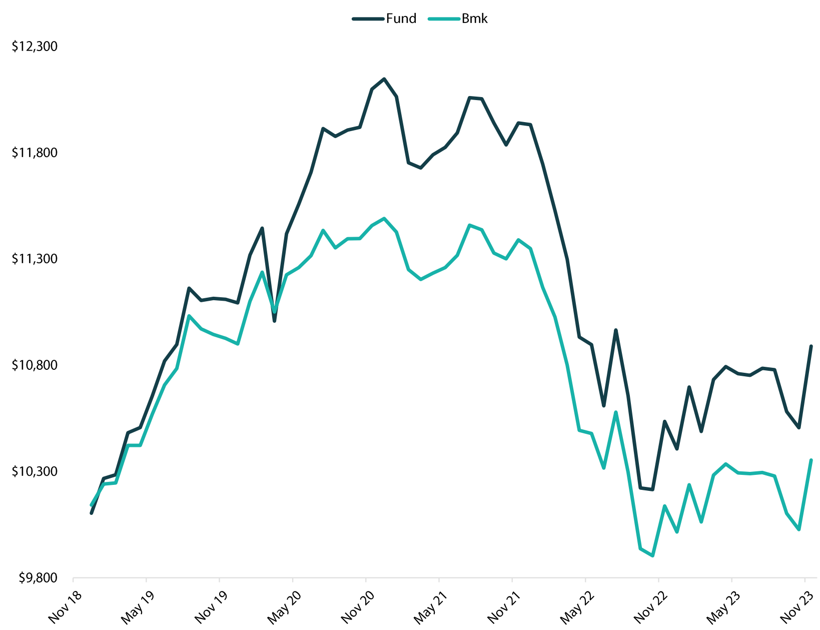
Overview

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.

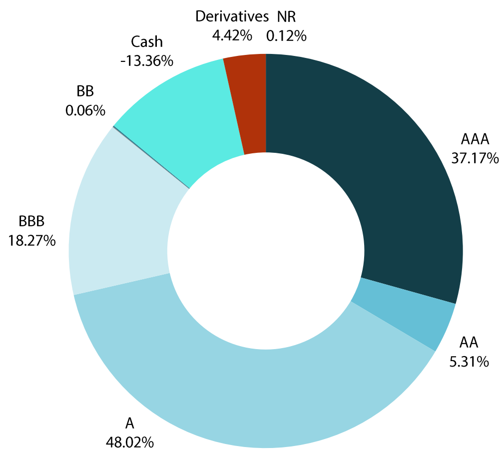
Objective

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	39.36	44.26
Agency	4.31	7.84
Collateralised & MBS	34.44	11.72
Credit	26.32	20.43
Emerging market debt	4.51	15.75
Cash, derivatives, other*	-8.94	0.00

*Includes deferred settlements

Duration
Fund 6.23 years vs Benchmark 6.56 years
Yield to Maturity
Fund (gross) 5.58% vs Benchmark 5.39%

Market Commentary

November saw the largest easing in US financial conditions of any month within the past 40 years. The loosening was largely led by a rally in rates with the 10-year US Treasury yield ending the month 60bps lower. Factors behind the easing include ongoing disinflation, soft-landing optimism, dovish US Federal Reserve (Fed) sentiment and increased expectations for central banks to ease policy in 2024.

As such, the benign macro backdrop and rally in rates saw fixed income spreads tighten on the month. US investment grade (IG) corporate credit spreads narrowed by 25bps while emerging market debt (EMD) gained given accommodative local central bank policy and a weaker US dollar. In all, the Bloomberg US Aggregate Bond Index gained 4.5% in November, the best month since May 1985.

Meanwhile, Fed and Bank of England (BoE) kept policy rates unchanged at their early November meetings despite retaining a tightening bias and pushing back against premature rate cuts. By contrast, the Bank of Japan (BoJ) remained an outlier and increased flexibility of its yield curve control. The central bank removed the upper bound of 1% on 10-year Japanese government bond yields and will instead treat the level as a “reference”.

In our view, inflation is now within striking distance of central bank targets and faces a balanced outlook for the first time in two years. Yet, we remain vigilant to potential risks including a sharp growth slowdown due to higher rates or renewed commodity price rises. We see value in balanced portfolios that draw income from high-quality assets like investment grade credit and agency mortgage-backed securities, and protection from duration. Higher yields point to attractive returns and safeguard against further rate increases.

Fund Commentary

The fund returned 3.65% (gross of fees) in November, which was 39 basis points (bps) better than the benchmark return of 3.26%.

This was driven by our Cross-Sector and Securitized selection strategies, respectively. By contrast, our Duration strategy detracted from excess returns.

Positive contributions from our Cross-Sector strategy were driven by our sector overweight to mortgage-backed securities (MBS) and investment grade (IG) corporate credit. News of further progress on US disinflation, optimism around a soft-landing and the rally in rates saw fixed income spread sectors tighten on the month. In this instance, US MBS spreads tightened from 87bps to 64bps while US IG spreads tightened by 25bps. Our Securitized selection strategy also benefited. This was in part driven by our specific selection among asset-backed securities (ABS), particularly credit card ABS.

By contrast, our Duration strategy detracted from excess returns. This was in part driven by dovish Bank of Japan (BoJ) commentary. Governor Ueda announced the central bank would proceed carefully with raising interest rates while also pushing back against an earlier end to unwinding its ultra-loose monetary policy.

Key Fund Facts

Estimated annual fund charges (incl. GST)	
Wholesale: **Retail:**	Negotiated outside of the unit price. 0.80%, refer to PDS for more details.
Distributions:	
Wholesale: **Retail:**	Calendar quarter Calendar quarter

Hedging:	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.
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.

Strategy Launch:	October 2008
Strategy size:	$537.3m
Buy / Sell spread:	0.00%/0.00%

Compliance

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

Contact Us

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