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Nikko Asset Management

YOUR GOALS, OUR COMMITMENT.

Nikko AM Global Bond Strategy

Monthly Update 31 March 2024

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

- Credit spreads tightened and equities ended the quarter strong with the S&P500 recording all-time highs.
- The US economy demonstrated notable resilience, expanding at an annualized rate of 3.4% in the fourth quarter of 2023.
- Europe also exceeded growth expectations and the UK entered a phase of expansion.
- Sovereign bonds were challenged as strong growth and bumpy inflation saw expectations for policy rate cuts pushed back and pulled lower.
- US Treasury and global government bonds posted negative total returns of - 1% and -3%, respectively, over the quarter.

Fund Highlights

- The portfolio outperformed its benchmark for the quarter.
- Outperformance was driven by cross-sector and corporate selection strategies, respectively.
- Emerging market debt (EMD) 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).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	1.21%	0.20%	5.25%	-1.24%	1.51%	3.49%
Benchmark[2]	0.91%	-0.02%	3.80%	-1.60%	0.48%	2.92%
Retail[3]	1.27%	-0.24%	4.74%	-1.96%	0.69%	2.57%

1. Returns are before tax and before the deduction of fees and including tax credits (if any). 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.

Overview

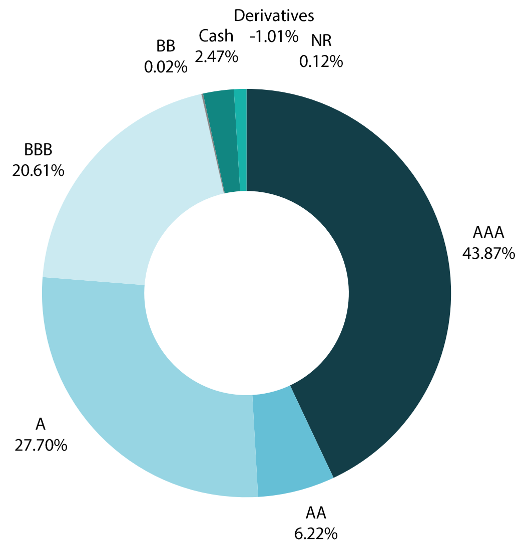
The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

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	16.66%	44.15%
Agency	4.62%	7.94%
Collateralised & MBS	43.25%	11.56%
Credit	29.15%	20.60%
Emerging market debt	4.86%	15.75%
Cash, derivatives, other	1.46%	0.00%

*Includes deferred settlements

Duration
Fund 6.15 years vs Benchmark 6.61 years
Yield to Maturity
Fund (gross) 5.71% vs Benchmark 5.2%

Market Commentary

Over the quarter we saw rates sell off and the curve bear flatten. Meanwhile, credit spreads tightened and equities ended the quarter strong with the S&P500 recording all-time highs. Optimism over economic resilience bolstered risk assets throughout the first quarter, as global economic data surprised to the upside. The US economy demonstrated notable resilience, expanding at an annualized rate of 3.4% in the fourth quarter of 2023. Europe also exceeded growth expectations and the UK entered a phase of expansion.

Sovereign bonds were challenged, as strong growth and bumpy inflation saw expectations for policy rate cuts pushed back and pulled lower. US Treasury and global government bonds posted negative total returns of - 1% and -3% respectively over the quarter. Divergent central bank actions became apparent, with the Bank of Japan (BoJ) moving away from negative interest rates. Despite this, the Japanese Yen weakened by almost 7% against the U.S. dollar as real yield differentials remain wide. Meanwhile, the Swiss National Bank (SNB) took the lead among developed market central banks by cutting rates, reflecting progress in disinflation. Looking ahead to the remainder of 2024, major central banks, including the US Federal Reserve (Fed), European Central Bank (ECB), and the Bank of England (BoE), are expected to commence rate cuts in the summer.

Our view is anticipated easing of policy, combined with solid private sector balance sheets and steady growth, should continue to support strong performance in fixed income spread sectors, such as corporate and securitized credit. The landscape is not without challenges. Downside risks to growth, upside risks to inflation and geopolitical instability underscore the importance of active security selection and the strategic role of government bonds in mitigating risks.

Fund Commentary

The portfolio outperformed its benchmark over the first quarter. This was driven by our cross-sector and corporate selection strategies, respectively. By contrast, our emerging market debt (EMD) strategy detracted from excess returns. Our cross-sector strategy was supported by broad-based credit spread tightening over the quarter, driven by stronger-than-expected US data which raised hopes of a soft economic landing. Our sector overweight to securitized credit, particularly among commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLO) outperformed. Our sector overweight to investment grade (IG) credit also contributed as US IG spreads tightened by 11bps.

Our corporate selection strategy also contributed. This was driven by several factors. First, our bias towards BBB-rated bonds contributed with spreads tightening by around 12bps over the quarter. Our overweight to financials versus non-financials also contributed as financials spreads tightening by 16bps quarter-on-quarter (QoQ). Lastly, our IG curve steepener benefited from the shorter-dated portion of the IG curve outperforming the long-end. By contrast, our EMD selection strategy detracted. This was mainly driven by our overweight position on external Hungarian debt. Concerns around Hungary and European Union relations, and thus uncertainty around sources of funding for Hungary kept bonds under pressure. Meanwhile, the spread change between Hungary and the emerging market bond index remained wide over the quarter.

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:	$554.3m
Buy / Sell spread:	0.00%/0.00%

Compliance

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

Contact Us

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