

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)

- Economic data generally reflected a monthly improvement, suggesting April marked the low-point for month-over-month decline. The US economy added 2.5 million jobs in May and the unemployment rate fell from an 80-year high of 14.7% in April to 13.3% in May. Nonetheless, unemployment remains elevated and we expect policy to remain accommodative for the foreseeable future.
- Central bank liquidity and investor optimism around reopening of economies led to a significant rally in risk assets in May, including corporate credit.

Fund Highlights

- The portfolio returned 1.2% in May, 92bps ahead of its benchmark.
- Cross-Sector (70bps), Corporate (16bps) were the largest contributors in May, while Securitised (-9bps) strategies detracted from performance.

Performance

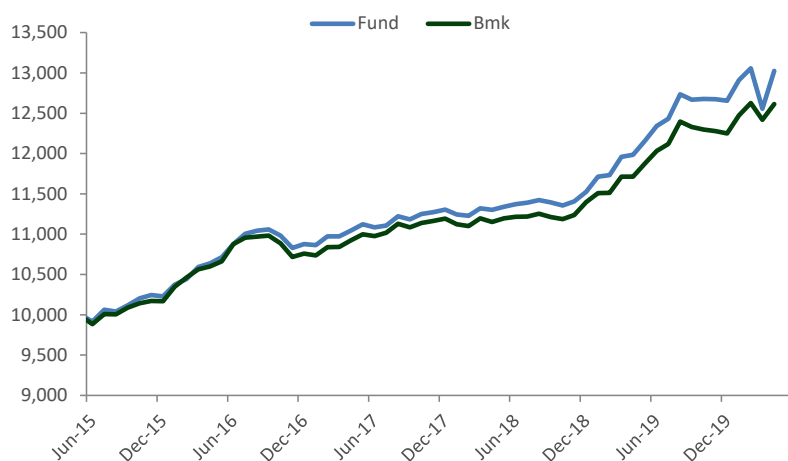
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	1.22%	0.99%	8.47%	5.83%	5.68%	6.45%
Benchmark ²	0.30%	0.20%	6.53%	4.79%	4.85%	5.97%
Retail ³	1.12%	1.00%	7.60%	4.78%	4.66%	

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. GSAM's Global Fixed Income Team manages over US\$525 billion of global fixed income and currency assets.

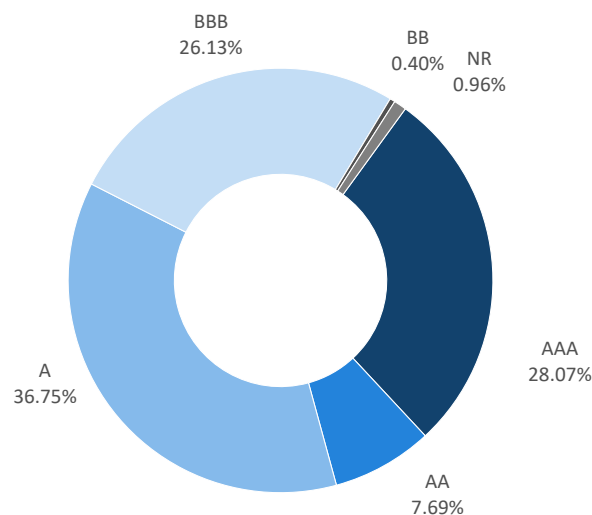
Overview

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	17.61%	47.61%
Agency	0.50%	8.28%
Collateralised & MBS	38.38%	11.77%
Credit	46.11%	21.07%
Emerging market debt	8.16%	11.27%
Cash, derivatives, other	-10.76%	0.00%

Duration
Fund 7.22 years vs Benchmark 7.14 years

Yield to Maturity
Fund (gross) 2.42% vs Benchmark 1.10%

Market Commentary (source: GSAM)

Central bank liquidity and investor optimism around reopening of economies led to a significant rally in risk assets in May, including corporate credit. The US Federal Reserve (Fed) has tapered weekly US Treasury and Agency mortgage backed security (MBS) purchases but its presence in the market remains sizeable and last month it commenced purchases of credit ETFs under the Secondary Market Corporate Credit Facility (SMCCF). Markets appear to be looking beyond tail risks such as deteriorating US-China relations and civil unrest and nationwide protests in the US.

Economic data generally reflected a monthly improvement, suggesting April marked the low-point for month-over-month declines. The US economy added 2.5 million jobs in May and the unemployment rate fell from an 80-year high of 14.7% in April to 13.3% in May.

Nonetheless, unemployment remains elevated and we expect policy to remain accommodative for the foreseeable future.

Interest rates were broadly unchanged in May but we have seen a steepening in yield curves. In the US, Treasury issuance exceeded expectations during the month in 10-, 20-, and 30-year tenors, thereby contributing to a steeper yield curve. Minutes from the April Federal Open Market Committee (FOMC) meeting indicated that policymakers are cautious on the macro outlook and that participants discussed strengthening forward guidance, the asset purchase program and yield curve control (YCC).

Investment grade corporate credit rallied in May; spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 24bps to 181bps over sovereigns. The investment grade market continued to strengthen on optimism around economies reopening and ongoing support from major central banks. However, sentiment was partially tempered by US-China geopolitical tensions. Regionally, the US outperformed other developed markets as lockdowns started easing across several states and US activity data suggests April marked the possible low-point.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.12% in May, neutral to similar duration US Treasuries. Agency MBS underperformed in the first half of May as high mortgage origination outweighed the impact of Fed buying. Mortgage origination in the US has rebounded from low levels seen at the beginning of April, despite parts of the country remaining in lockdown and social distancing measures being retained. New supply was close to historical averages for the month of May, which tends to be a peak supply month. MBS spreads tightened towards the end of month supported by a decline in volatility and continued Fed purchases.

Fund Commentary (source: GSAM)

The portfolio returned 1.2% in May, 92bps ahead of its benchmark. The outperformance was mainly due to the cross-sector and corporate selection strategies whilst the securitised selection strategy detracted from returns over the period. The Cross-Sector strategy was the largest contributor to returns over the month due to an overweight in Investment grade (IG) corporate credit. The Corporate Selection strategy also outperformed over the month due to an overweight bias to the short-dated and intermediate maturity sections of the US IG credit curve which benefited from Fed purchases over the month as well as increased demand from foreign buyers. The Securitised Selection strategy was the largest detractor from performance over the month due to the specific selection of asset backed securities (ABS).

After a few weeks of elevated supply, Agency MBS valuations have reached levels not seen since mid-March. We have increased our overweight to the sector as we believe historically wide valuations, compelling carry, and potential for bank demand should lead to tighter spreads. We continue to favor wing coupon MBS relative to production coupon MBS, especially higher coupon Ginnie Mae MBS.

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: 0.84%, 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

\$341.8m

Strategy Launch

October 2008

Exclusions: Investments in tobacco manufacturers and 'controversial weapons'.

Compliance The Fund complied with its investment mandate and trust deed during the month.

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.