

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)

- Risk assets continued to outperform last month supported by improved economic data, accommodative monetary policy developments, and COVID-19 vaccine progress.
- Sovereign yields rose last month amid risk-on sentiment. In the US, rates responded to the Fed's announcement differently across the curve, which ultimately steepened as some market participants may have been disappointed by the non-committal (versus formulaic) version of flexible average inflation targeting. The US dollar weakened against most major currencies with the US dollar index down -1.29%.

Fund Highlights

- The portfolio returned -0.31% in August, 41bps ahead of its benchmark.
- Duration (+13bps), Cross-Sector (10bps), and Corporate (+9bps) strategies were the largest contributors.

Performance

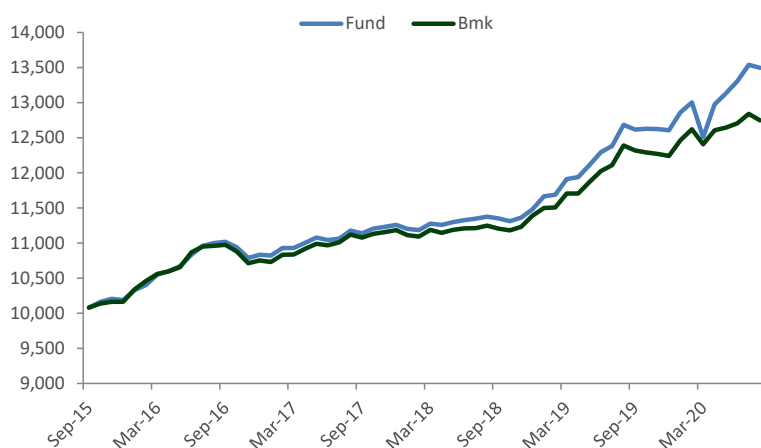
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	-0.31%	2.76%	6.40%	6.49%	6.18%	6.25%
Benchmark ²	-0.72%	0.82%	2.90%	4.66%	4.98%	5.63%
Retail ³	-0.48%	2.64%	5.15%	5.47%	5.10%	

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.

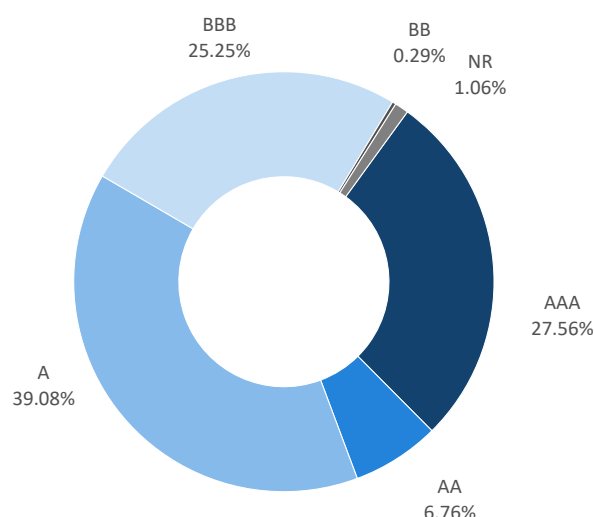
Overview

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	25.86%	47.08%
Agency	0.62%	8.36%
Collateralised & MBS	34.42%	11.16%
Credit	41.69%	21.12%
Emerging market debt	7.34%	12.28%
Cash, derivatives, other	-9.93%	0.00%

Duration
Fund 7.03 years vs Benchmark 7.20 years

Yield to Maturity
Fund (gross) 1.93% vs Benchmark 1.04%

Market Commentary (source: GSAM)

August is typically a quiet period for financial markets but this year’s unusual backdrop resulted in increased market volatility. Risk assets continued to outperform last month supported by improved economic data, accommodative monetary policy developments, and COVID-19 vaccine progress.

At the annual Jackson Hole symposium at the end of August, Fed Chairman Jerome Powell announced the adoption of flexible average inflation targeting. The FOMC will aim for inflation moderately above 2% following periods when inflation has run persistently below 2%. Bank of England (BoE) rate and quantitative easing (QE) policies were maintained at the August meeting. BoE Governor Andrew Bailey stated that negative policy rates are in the central bank’s toolbox but not a likely tool to be used in the near term.

Sovereign yields rose last month amid risk-on sentiment. In the US, rates responded to the Fed’s announcement differently across the curve, which ultimately steepened as some market participants may have been disappointed by the non-committal (versus formulaic) version of flexible average inflation targeting. The US dollar weakened against most major currencies with the US dollar index down -1.29%. The Reserve Bank of Australia (RBA) left its policy rate unchanged in August but increased the term funding facility for banks, which was a dovish surprise. Meanwhile, minutes from the European Central Bank (ECB) meeting in July suggest members were somewhat more optimistic that their baseline scenario might be realized.

Investment grade corporates rallied in August as spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 7bps to 130bps over sovereigns. The theme of capital conservation has been evident in second quarter corporate earnings and there is optimism on the vaccine outlook. Concerns remain around the macro outlook, however, given signs that the pace of the recovery may be more gradual going forward.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.04% in August, slightly underperforming similar duration US Treasuries. Strong month-end buying and improved carry supported Agency MBS performance in early August. July prepayment speeds were flat month-over-month, slightly below market expectations. Better than expected speeds were generally concentrated in newer vintage super premium coupons.

Fund Commentary (source: GSAM)

The portfolio returned -0.31% in August, 41bps ahead of its benchmark. The largest positive contributors to performance over the month were Duration (+13bps), Cross-Sector (+10bps), Corporate (+9bps) strategies.

The growth outlook remains virus-dependent and is still subject to considerable uncertainty in the near term but the policy backdrop remains accommodative. The dovish shift in Fed policy reinforces expectations for unchanged rates for the foreseeable future and should be supportive of risk assets. As such, we remain overweight assets that benefit from policy tailwinds including Agency MBS and corporate credit in both the US and Europe. That said, we believe virus, economic, and political uncertainties require selective and diversified exposures.

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

\$362.4m

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.

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