Factsheet 31 December 2020

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)

- Vaccine discovery and the start of immunizations helped lift sentiment into year-end, despite steadily rising virus cases and renewed lockdowns. Risk sentiment was also bolstered by the removal of two long-standing overhangs in December: additional fiscal stimulus in the US and a post-Brexit trade deal between the UK and EU.
- Notwithstanding vaccine-driven growth improvements, the underlying inflation reality will remain benign due to slack in both economic output and employment. Central banks will keep monetary policy easy even as growth recovers given weak inflation. At the same time, the fiscal impulse is set to remain friendly. We entered 2021 with low policy rates, low government yields, and low fixed income spreads.

Fund Highlights

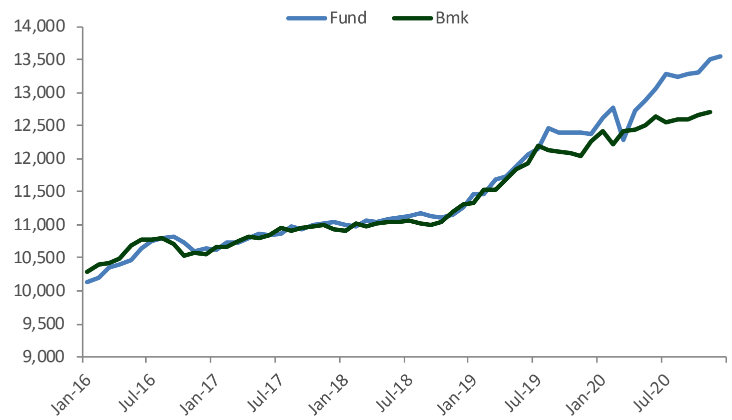
- The fund returned 0.40% in December, and 2.02% for the quarter, well ahead of benchmark. The largest positive contributors to performance over the quarter were cross sector and duration strategies and the fund's allocation to corporate credit and collateralised and MBS assets. Country allocation strategy and the government bonds allocation negatively affected fund performance.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.40%	2.02%	9.50%	7.03%	6.26%	6.54%
Benchmark[2]	0.29%	0.84%	5.41%	4.88%	4.89%	5.85%
Retail[3]	0.33%	1.80%	8.53%	6.09%	5.26%	

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.

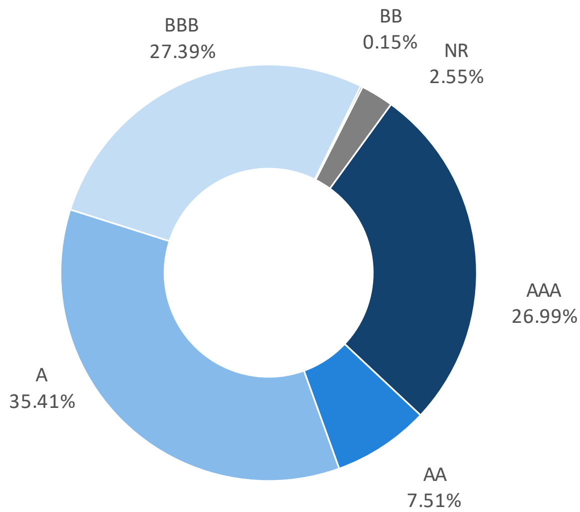
Overview

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	27.43%	46.73%
Agency	0.53%	8.42%
Collateralised & MBS	29.12%	10.93%
Credit	39.51%	20.59%
Emerging market debt	8.72%	13.33%
Cash, derivatives, other*	-5.31%	0.00%

*includes deferred settlements

Duration
Fund 7.83 years vs Benchmark 7.33 years

Yield to Maturity
Fund (gross) 1.64% vs Benchmark 0.93%

Market Commentary (source: GSAM)

Vaccine discovery and the start of immunizations helped lift sentiment into year-end, despite steadily rising virus cases and renewed lockdowns. Risk sentiment was also bolstered by the removal of two long-standing overhangs in December: additional fiscal stimulus in the US and a post-Brexit trade deal between the UK and EU. Looking ahead, we expect virus spread to slow growth over the winter months before mass immunizations reaccelerate economic recoveries in the spring. Notwithstanding vaccine-driven growth improvements, the underlying inflation reality will remain benign due to slack in both economic output and employment. Central banks will keep monetary policy easy even as growth recovers given weak inflation. At the same time, the fiscal impulse is set to remain friendly. We entered 2021 with low policy rates, low government yields, and low fixed income spreads. To navigate this “status low,” we seek to access and diversify across the broad fixed income opportunity set including corporate and securitized credit alongside emerging market (EM) debt. We also look for openings to capture risk premiums created by market inefficiencies and see value in utilizing currencies as a hedge for risk asset exposures.

Fund Commentary (source: GSAM)

The fund returned 0.40% in December, and 2.02% for the quarter, well ahead of benchmark. The largest positive contributors to performance over the quarter were cross sector and duration strategies and the fund’s allocation to corporate credit and collateralised and MBS assets. Country allocation strategy and the government bonds allocation negatively affected fund performance.
In the US, the Fed did not extend the average maturity of its Treasury purchases during December’s central bank meeting but did introduce dovish forward guidance stating that it will continue to increase its asset holdings at the current pace “until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.” This guidance is deliberately vague, most likely to give the Fed some flexibility. In Europe, the European Central Bank (ECB) announced a multi-pronged package of easing measures, in line with expectations. We remain constructive on the Agency MBS sector given continued strong demand from both the Fed and US banks. We have however reduced our sector overweight marginally on the back of spread tightening in production coupon MBS. We continue to view lower coupon MBS as structurally attractive since Fed and US bank demand should keep carry elevated despite historically tight spread levels. In securitized credit sectors, we remain constructive on CMBS and have added exposure to BBB-rated CMBS cash bonds given recent underperformance relative to synthetics. We are selective in our exposures and tend to avoid CMBS bonds with greater exposure to hotel and retail properties. In securitised credit sectors, we remain constructive on CMBS and have added exposure to BBB- rated CMBS cash bonds given recent underperformance relative to synthetics. We are selective in our exposures and tend to avoid CMBS bonds with greater exposure to hotel and retail properties. Corporate credit markets continued to tighten in the last month of the year as risk sentiment was supported by encouraging vaccine developments and implications for medium-term growth. We believe that search-for-yield motives, central bank buying, and a vaccine-induced economic recovery will continue to support investment grade credit in 2021. We are overweight as we believe spreads continue to offer attractive compensation for downgrade risk and carry is favourable. That said, we remain mindful of macro uncertainties and idiosyncratic corporate challenges. We are overweight shorter-dated and intermediate maturity bonds.

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	Strategy size	Strategy Launch
0.00% / 0.00%	$414.1m	October 2008

Exclusions: Investments in tobacco manufacturers and ‘controversial weapons’. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website https://www.nikkoam.co.nz/invest/retail.

Compliance

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

Contact Us

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