

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)

- Central banks in the US, Europe and UK kept policy unchanged. The European Central Bank (ECB) noted that preservation of favorable financing conditions would alleviate the need for full use of its pandemic emergency purpose program (PEPP).
- Positive vaccine rollout news was somewhat counteracted by the emergence of new virus strains and uncertainty over global vaccine supply. In our view, a vaccine-driven growth recovery, central bank accommodation and investor demand arising from low absolute level of yields will continue to provide support for investment grade credit markets.

Fund Highlights

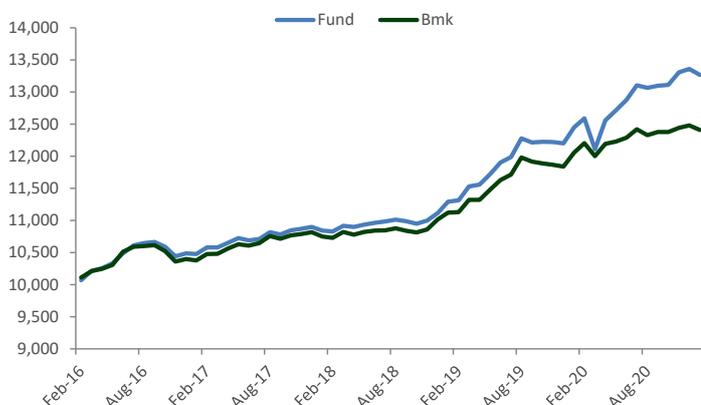
- The fund returned -0.69% for January, behind benchmark. The largest positive contributors to performance over the month were country and duration strategies and the fund's allocation to government bonds and swaps. Cross-sector strategy and corporate allocations negatively affected fund performance.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	-0.69%	1.21%	6.59%	6.96%	5.82%	6.46%
Benchmark ²	-0.55%	0.27%	2.94%	4.91%	4.41%	5.80%
Retail ³	-0.56%	1.07%	6.12%	6.08%	4.93%	

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.

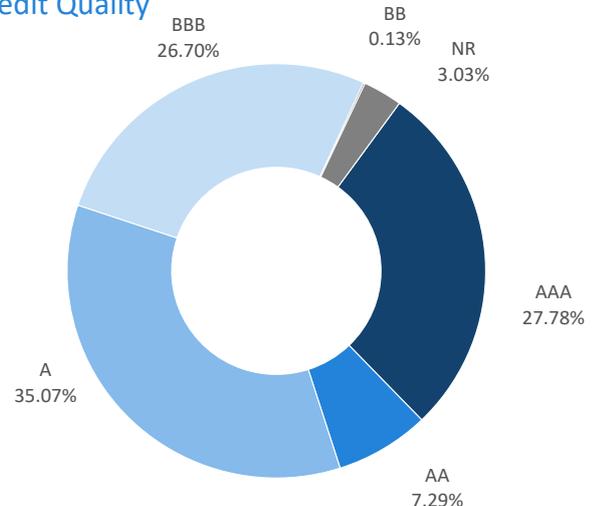
Overview

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	31.67%	46.60%
Agency	0.72%	8.47%
Collateralised & MBS	28.13%	11.00%
Credit	36.27%	20.38%
Emerging market debt	9.07%	13.55%
Cash, derivatives, other*	-5.86%	0.00%

*includes deferred settlements

Duration
Fund 8.27 years vs Benchmark 7.30 years

Yield to Maturity
Fund (gross) 1.72% vs Benchmark 1.00%

Market Commentary (source: GSAM)

Reflation market moves remained intact in January amid vaccine rollout and rising prospects of additional US fiscal stimulus. Central banks in the US, Europe and UK kept policy unchanged. The European Central Bank (ECB) noted that preservation of favorable financing conditions would alleviate the need for full use of its pandemic emergency purpose program (PEPP) envelope of €1.85 trillion. Core European bond yields rose in response. We are positioned for convergence between high rate and low rate markets, as we think market-pricing for monetary normalization in the former bloc—which includes Canada—is premature. We expect central banks to retain easy monetary policies through 2021, while friendly fiscal policies are either extended or expanded.

Fund Commentary (source: GSAM)

The fund returned -0.69% for January, lagging the benchmark. The largest positive contributors to performance over the month were country and duration strategies and the fund’s allocation to government bonds and swaps. Cross-sector strategy and corporate allocations negatively affected fund performance.

Our Cross-Sector strategy was the largest detractor from excess returns, driven by our credit-rate paired approach where overweight exposure to credit sectors is hedged with a long US rates position. The rates component detracted from performance as US rates sold off during the month. Our Corporate Selection strategy also underperformed, owing to our specific name selection in investment grade industrials and financials. Our Duration strategy outperformed due to our overweight exposure to European rates. European rates sold off as the European Central Bank signalled that the preservation of favourable financing conditions would lessen the need for full use of its PEPP envelope of €1.85 trillion. Our Country strategy also contributed to performance over the month primarily due to our overweight Australian versus underweight US rates as well as overweight Swedish versus underweight European rates positions. Our overweight exposure to Australian rates benefitted from Australian rates outperformance on the back of dovish RBA rhetoric. Similarly, our overweight Swedish rates exposure contributed to performance as Swedish rates outperformed on a cross market basis.

In our view, a vaccine-driven growth recovery, central bank accommodation and investor demand arising from low absolute level of yields will continue to provide support for investment grade credit markets. We believe corporate credit offers attractive carry and roll and provides adequate compensation for downgrade risk. In addition, seasonals are supportive. That said, we have scaled back a portion of our overweight exposure to investment grade corporate credit given the low absolute level of spreads.

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

\$415.3m

Strategy Launch

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.

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