

Factsheet 31 October 2021

# 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)

- Rate market volatility was elevated in October as financial markets recalibrated expectations for withdrawal of easy monetary policies in response to central bank meeting outcomes and upside inflation surprises.
- At its early November meeting, the Fed announced that it would scale back bond-buying at a pace of \$15 billion per month, suggesting asset purchases will conclude in June 2022.

## Fund Highlights

- The portfolio underperformed the benchmark over the month of October, driven by our Country and Duration strategies. The largest contributor over the month was our EMD Selection strategy.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	-0.87%	-1.85%	-0.70%	5.94%	4.22%	5.63%
Benchmark <sup>2</sup>	-0.23%	-1.38%	-0.83%	4.32%	3.13%	4.99%
Retail <sup>3</sup>	-0.79%	-1.74%	-1.44%	5.04%	3.34%	

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<sup>1, 2</sup>



## 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.

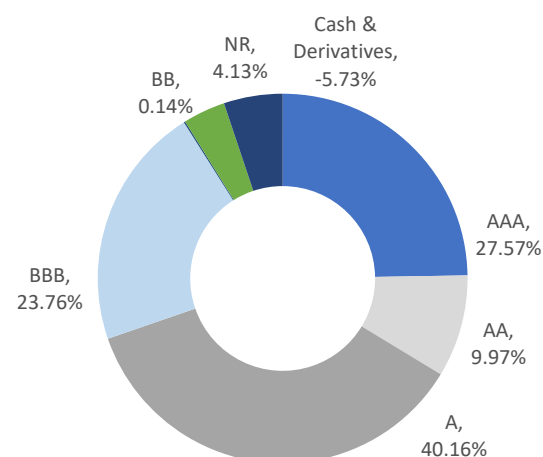
## Overview

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	40.19%	46.11%
Agency	2.10%	8.23%
Collateralised & MBS	25.03%	11.53%
Credit	26.55%	20.24%
Emerging market debt	11.85%	13.88%
Cash, derivatives, other	-5.73%	0.02%

\*includes deferred settlements

Duration
Fund 7.36 years vs Benchmark 7.35 years

Yield to Maturity
Fund (gross) 2.46% vs Benchmark 1.70%

### Market Commentary (source: GSAM)

Rate market volatility was elevated in October as financial markets recalibrated expectations for withdrawal of easy monetary policies in response to central bank meeting outcomes and upside inflation surprises. The sell-off in front-end rates was particularly sharp in Australia and Canada. The BoC pulled forward its projected timeline for rate hikes from the “second half” of next year to the “middle quarters of 2022”. What we viewed as a small step change in BoC forward guidance was met by a large leap in market-implied pricing. Elsewhere, the RBA abandoned its yield curve control policy and calendar-based forward guidance but continues to reiterate that rate hikes are a distant prospect. At its early November meeting, the Fed announced that it would scale back bond-buying at a pace of \$15 billion per month, suggesting asset purchases will conclude in June 2022. By contrast, at its November 4 meeting, the BoE delivered a dovish surprise in keeping policy unchanged. We believe this likely reflects a desire to see more data on the outcome of the end of the furlough scheme.

### Fund Commentary (source: GSAM)

The portfolio underperformed the benchmark over the month of October, driven by our Country and Duration strategies. The largest contributor over the month was our EMD Selection strategy. The underperformance of our Country strategy (-34bps) was driven by our relative value overweight positions in Australian and Canadian rates. Australian rates sold off as the market accelerated the pricing of rates (particularly after better-than-expected CPI release), driving the underperformance of our relative value positions (e.g. overweight Australian versus Norwegian rates). Additionally, our overweight Canadian versus US rates exposure detracted following a hawkish surprise from the Bank of Canada.

Our Duration strategy also detracted (-31bps), owing to our overweight in Canadian and Australian front-end rates as well as our UK curve steeper position. Front-end rates sold off amid hawkish central bank communication and continued rising inflationary pressures. Our UK curve steeper also detracted as we were underweight the mid part of the curve which outperformed amid the market moves. Our EMD Selection strategy’s contribution (3bps) was driven by our security selection within local rates, namely in Brazil and Poland. Stock selection with the government and swaps sector also added a small amount of value (+3bps).

### Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.80%, refer PDS for more details	
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.		0.00% / 0.00%	\$481.3m	October 2008
<b>Restrictions:</b> Thermal coal mining and extraction, oil tar sands extraction, ‘controversial weapons’, tobacco stocks and fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .				

### Compliance

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

### Contact Us

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