Factsheet 31 December 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)

- There were several notable central banks actions during the month: the US Federal Reserve (Fed) announced an acceleration in the pace of its asset purchase taper (expected), the Bank of England (BoE) raised its bank rate by 15 basis points (bps) to 0.25% and the Norges Bank raised rates by 25 bps.
- The rise in US nominal yields has been driven by higher real rates rather than breakeven inflation rates, suggesting the market expects Fed actions to curb inflation.

Fund Highlights

- The portfolio outperformed its benchmark over the month of December, driven by our Cross Sector and Corporate Selection strategies. On the other hand, our Securitized Selection strategy was the main detractor over the month.
- Over the quarter, Duration strategy was the main detractor (-23bps) followed by country allocation (-11bps). Within stock selection the detractors were Government and Swaps (-6bps) and Securitised (-11bps), while Corporate bonds Emerging Markets Debt added value (+6 and + 11bps respectively).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.07%	-0.07%	-1.77%	5.70%	4.59%	5.56%
Benchmark[2]	-0.37%	0.19%	-1.23%	3.82%	3.46%	4.89%
Retail[3]	0.04%	-0.27%	-2.52%	4.79%	3.67%	

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.

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.

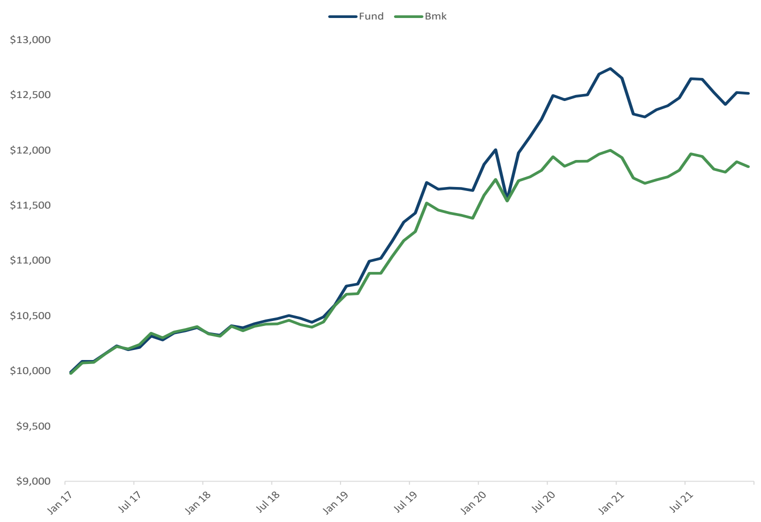
Overview

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.

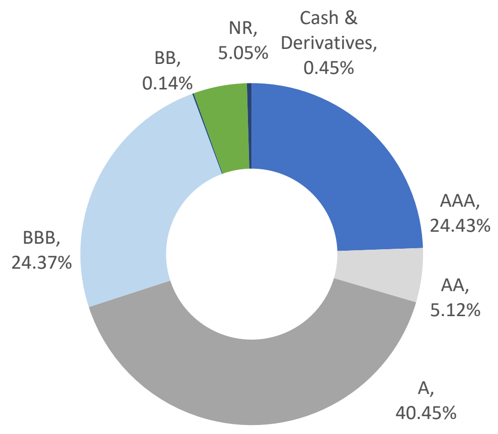
Objective

The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Five Year Cumulative Performance, $10,000 invested[1, 2]



Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	31.73%	46.03%
Agency	1.02%	8.10%
Collateralised & MBS	24.24%	11.65%
Credit	28.75%	20.05%
Emerging market debt	13.81%	14.12%
Cash, derivatives, other	0.45%	0.05%

*includes deferred settlements

Duration
Fund 7.54 years vs Benchmark 7.33 years

Yield to Maturity
Fund (gross) 2.83% vs Benchmark 1.91%

Market Commentary (source: GSAM)

There were several notable central banks actions during the month: the US Federal Reserve (Fed) announced an acceleration in the pace of its asset purchase taper (as expected), the Bank of England (BoE) raised its bank rate by 15 basis points (bps) to 0.25% and the Norges Bank raised rates by 25 bps. US Treasury yields have been on an uptrend since mid-December due to firm inflation signals, hawkish policy expectations and, more recently, a view that the Omicron variant may help COVID-19 transition from pandemic to endemic. The rise in US nominal yields has been driven by higher real rates rather than breakeven inflation rates, suggesting the market expects Fed actions to curb inflation. Markets reacted positively to the central bank action with credit spreads reversing the weakness witnessed in November.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of December, driven by our Cross Sector and Corporate Selection strategies. On the other hand, our Securitized Selection strategy was the main detractor over the month. Our Cross Sector strategy was the main contributing strategy, driven mainly by our overweight in IG corporates and emerging market debt. While the spread of the Omicron variant continued to dominate headlines in December, concerns eased into the back-end of the month and markets adjusted focus to the expected path for central bank policy. Investment grade credit spreads tightened over December by 7bps to 97bps over sovereigns (as measured by the Bloomberg Barclays Global Aggregate Corporate Index). At the same time, Emerging Markets spreads also tightened over the month (as measured by the J.P. Morgan EMBI Global Diversified Index), which contributed to our excess returns. Within our Corporate Selection strategy, excess returns came most notably from our overweight in short- and intermediate-maturity versus longer-dated corporates. We continue to hold this positioning due to attractive carry and roll. Our overweight in euro-denominated corporate bonds and our bias to down-in-quality issuers also contributed. Our Securitized Selection strategy was the largest detractor over the month, owing to our agency MBS selection in derivatives and passthroughs.

The fund underperformed over the quarter – attributable to October month , namely our Country (-34bps) and Duration strategies (-31bps). The underperformance of our Country strategy 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 owing to our overweight in Canadian and Australian front-end rates as well as our UK curve steepener position. Front-end rates sold off amid hawkish central bank communication and continued rising inflationary pressures. Our UK curve steepener also detracted as we were underweight the mid part of the curve which outperformed amid the market moves.

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: 0.80%, 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%	$484.2m	October 2008

Restrictions: 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 https://www.nikkoam.co.nz/invest/retail.

Compliance

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

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