

Factsheet 31 March 2022

# 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)

- Major central banks held meetings following the onset of the Russia-Ukraine war and against a backdrop of tightening financial conditions.
- Sovereign bond yields rose as the market-implied pricing for monetary policy continued to move in a hawkish direction.
- The BoE adopted a dovish stance, raising concerns around the negative side effects of high inflation on household disposable incomes and consumer spending. The Fed and European Central Bank delivered a hawkish message.

## Fund Highlights

- The portfolio underperformed its benchmark over the quarter, driven by our Cross Sector and Country strategies whilst our Duration strategy contributed over the period.
- The underperformance of our Country strategy (-21bps) was driven by our Country signals and long-end valuation frameworks, particularly our cross-market overweight exposure to European rates.
- Sector spreads widened during the quarter, driven by concerns that central banks would have to hike interest rates faster than expected in order to tackle the higher-than-expected inflation data. Volatility was exacerbated by the escalation in geopolitical tensions.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	-1.99%	-5.31%	-3.67%	2.53%	3.27%	4.76%
Benchmark <sup>2</sup>	-2.06%	-4.83%	-3.60%	1.19%	2.28%	4.19%
Retail <sup>3</sup>	-2.15%	-5.90%	-4.69%	1.54%	2.26%	

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<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.

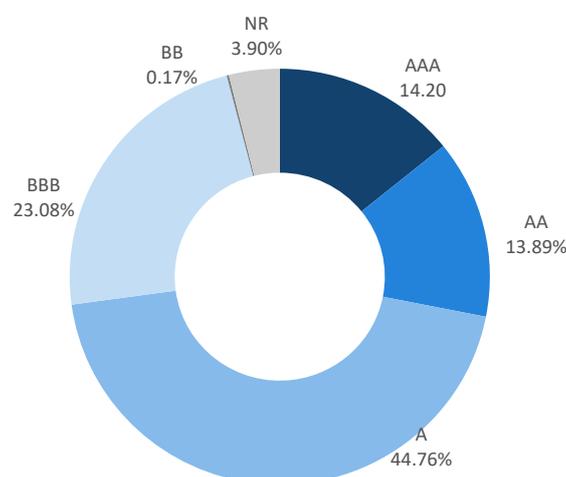
## Overview

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	35.69%	45.71%
Agency	2.30%	8.10%
Collateralised & MBS	24.09%	11.85%
Credit	29.05%	20.05%
Emerging market debt	11.44%	14.40%
Cash, derivatives, other*	-2.58%	0.05%

\*includes deferred settlements

Duration
Fund 7.81 years vs Benchmark 7.20 years

Yield to Maturity
Fund (gross) 3.85% vs Benchmark 3.01%

### Market Commentary (source: GSAM)

Sovereign bond yields rose in March as the market-implied pricing for monetary policy continued to move in a hawkish direction. Major central banks held meetings following the onset of the Russia-Ukraine war and against a backdrop of tightening financial conditions. The Fed and the BoE each hiked rates by 25 basis points but differed in their communication around future policy actions. A hawkish Fed signalled six further hikes in its median dot plot projection. The BoE adopted a dovish stance, raising concerns around the negative side effects of high inflation on household disposable incomes and consumer spending. In Europe, the ECB delivered a hawkish message and opted to taper asset purchases. It also signalled asset purchases will conclude in the third quarter, suggesting policymakers are more focused on upside inflation risks than downside growth risks at this stage.

### Fund Commentary (source: GSAM)

The portfolio underperformed its benchmark over the quarter, driven by our Cross Sector and Country strategies whilst our Duration strategy contributed over the period. Our Cross Sector strategy was the largest detractor (-33bps), owing to our sector overweight in investment grade credit and securitized as well as our rates hedge. Sector spreads widened during the quarter, driven by concerns that central banks would have to hike interest rates faster than expected in order to tackle the higher-than-expected inflation data. Volatility was exacerbated by the escalation in geopolitical tensions. Meanwhile, our rates hedge also detracted as US rates sold off over the quarter. The underperformance of our Country strategy (-21bps) was driven by our Country signals and long-end valuation frameworks, particularly our cross-market overweight exposure to European rates. European rates sold off as the ECB delivered a hawkish message at its March meeting, opting to taper asset purchases. It also signalled asset purchases will conclude in the third quarter, suggesting policymakers are more focused on upside inflation risks than downside growth risks at this stage.

Our Duration strategy was the largest contributor over the quarter (+22bps), most notably due to our US curve flattener and our underweight in US rates. US bond yields rose through the quarter as market-implied pricing for monetary policy continued to move in hawkish direction. The Fed delivered its first rate hike since 2018 and signalled six further hikes in its median dot plot projection and indicated balance sheet runoff to commence at the next FOMC meeting. Our tactical auction strategy in the US and Japan also performed well over the quarter.

<b>Key Fund Facts</b>			
<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>
All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.		0.00% / 0.00%	\$451.8m
<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> .		<b>Strategy Launch</b>	October 2008

### Compliance

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

### Contact Us [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).