Factsheet 31 May 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)

- Central banks remain on a firm tightening trajectory given above-target inflation.
- Performance of investment grade corporate markets was mixed and volatility continued throughout the month, driven by concerns around inflation. Investment grade credit spreads widened.

## Fund Highlights

- The portfolio underperformed the benchmark over the month of May.
- Underperformance was driven by Corporate Credit while Emerging Market debt (EMD) strategy was the largest contributor to returns.

## 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.

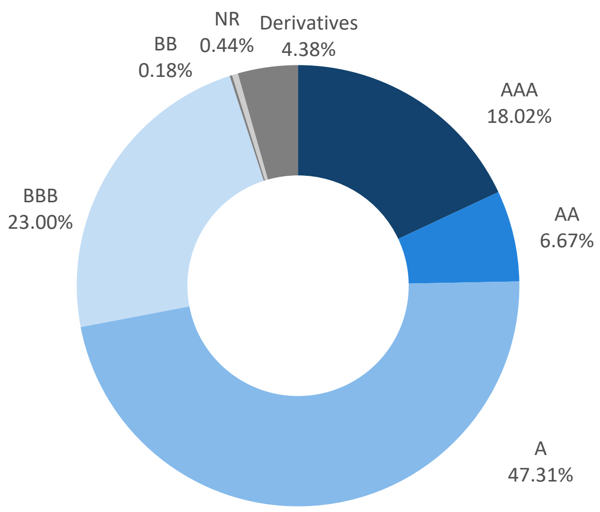
## Performance

| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|---|---|---|---|---|---|---|
| Wholesale[1] | -0.33% | -5.48% | -7.86% | 0.75% | 2.25% | 4.15% |
| Benchmark[2] | -0.14% | -4.98% | -6.94% | -0.29% | 1.38% | 3.65% |
| Retail[3] | -0.08% | -4.83% | -8.00% | 0.20% | 1.47% | - |

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]


## Credit Quality



| Sector Allocation (% of fund) | Fund | Index |
|---|---|---|
| Governments | 33.95 | 45.46 |
| Agency | 2.38 | 8.00 |
| Collateralised & MBS | 28.04 | 12.22 |
| Credit | 30.44 | 19.75 |
| Emerging market debt | 10.48 | 14.50 |
| Cash, derivatives, other* | -5.29 | 0.07 |

*includes deferred settlements

| Duration |
|---|
| Fund 7.81 years vs Benchmark 7.01 years |

| Yield to Maturity |
|---|
| Fund (gross) 5.36% vs Benchmark 3.83% |

## Market Commentary (source: GSAM)

**Rates markets** appear to have shifted their focus from inflation to growth concerns through May as evidenced by the decline in the 10-year US Treasury yield from a peak of 3.1% at the start of the month to 2.7% at the end. Nonetheless, developed market central banks remain on a firm tightening trajectory given above-target inflation. The US Federal Reserve (Fed) raised the funds rate target by 50 bps to 0.75% - 1%, as widely expected. We expect one or two additional 50-bp rate hikes as the Fed moves "expeditiously" to a neutral policy stance. Thereafter, we expect a reversion to 25-bp rate hikes, with the pace and magnitude of further hikes dependent on inflation. The Bank of England (BoE) hiked rates 25 bps to 1%, the fourth increase of its hiking cycle. The European Central Bank (ECB) formalized a July rate hike, leaving open the possibility of raising rates by 50 bps, and announced that its quantitative easing (QE) program would end at the end of the third quarter. The Bloomberg US **Mortgage Backed Securities** (MBS) Index returned 1.11% over the month of May and the index spread tightened by 6 bps. In May, US Treasury yields decreased driving MBS index yields lower by 13 bps. Housing activity has started to show signs of a slowdown with a decline in home affordability this year due to strong home price appreciation and an increase in mortgage rates of over 200 bps. Performance of investment grade **corporate markets** was mixed in the month of May. Volatility continued throughout the month, driven by concerns around inflation, despite recent decisions and clear communication by central banks on the future path of interest rates. The 0.31% year-to-date appreciation in the US dollar also weighed on companies with larger non-dollar revenue streams. Weak supply offset some market volatility, as the lack of liquidity combined with high demand aided some spread tightening.

## Fund Commentary (source: GSAM)

The portfolio underperformed the benchmark over the month of May. Underperformance was driven by Corporate credit while Emerging Market debt (EMD) strategy was the largest contributor to returns. Corporate credit selection strategy detracted from performance due to our overweight bias towards shorter-and-intermediate maturity versus longer-dated investment grade bonds. Our position detracted amid US investment grade credit curve flattening. We remain constructive on investment grade corporate fundamentals, with robust corporate balance sheets providing an anchor, despite rising inflation and geopolitical uncertainty. We also believe corporate fundamentals can provide some cushion in the event of shocks to growth or persistently high inflation. Lastly, our EMD strategy was the largest contributor to performance, driven by various selection positions among external rates. Our overweight selection in Mexican and Saudi Arabian external rates contributed. Given the magnitude of the credit spread widening, we selectively added to issuers in the intermediate- and long-end of the credit curve in both primary and secondary markets, as well as through synthetics. This was most notable from a sector perspective, where we increased our overweight to financials

## 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% | $443.8mm | 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) 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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