Factsheet 30 June 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)

- With the second half of 2022 coming into focus, the market and global economy is in the throes of transition where an unwind of decade of easy monetary policy, persistently high inflation, a slowing growth impulse and expectations for a policy tightening induced recession coalesced to drive market volatility and dispersion across global fixed income and currency markets.

Fund Highlights

- The portfolio underperformed the benchmark over the month and quarter.
- Underperformance was driven by our Cross Sector and Country strategies. Our Duration strategy and Government/swaps strategies were 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

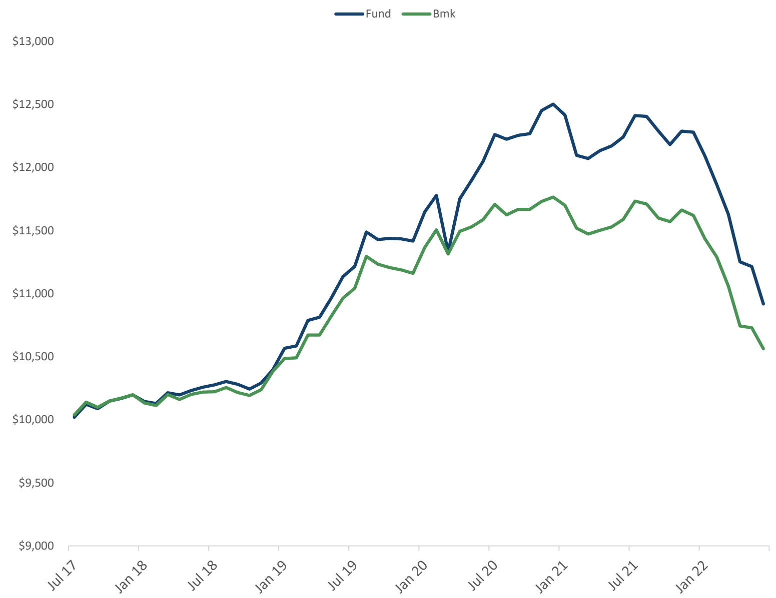
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

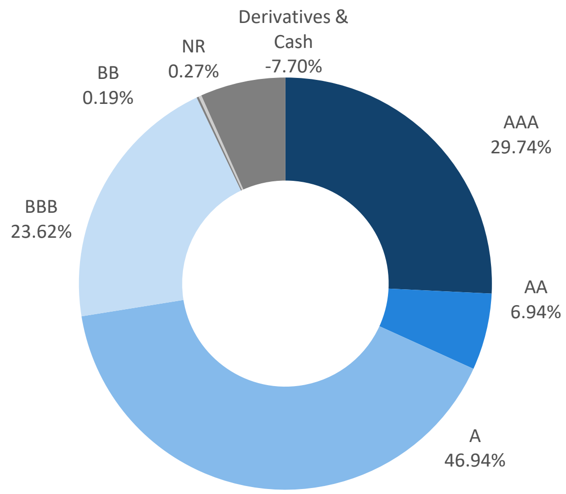
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-2.64%	-6.10%	-10.80%	-0.65%	1.77%	3.88%
Benchmark[2]	-1.55%	-4.48%	-8.85%	-1.23%	1.10%	3.48%
Retail[3]	-3.63%	-6.27%	-11.72%	-1.55%	0.75%	-

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	33.84	45.32
Agency	2.92	7.90
Collateralised & MBS	29.19	12.44
Credit	30.39	19.54
Emerging market debt	11.36	14.73
Cash, derivatives, other*	-7.70	0.07

*includes deferred settlements

Duration
Fund 6.91 years vs Benchmark 6.9 years

Yield to Maturity
Fund (gross) 5.91% vs Benchmark 4.15%

Market Commentary (source: GSAM)

With the second half of 2022 coming into focus, the market and global economy is in the throes of transition where an unwind of decade of easy monetary policy, persistently high inflation, a slowing growth impulse and expectations for a policy tightening induced recession coalesced to drive market volatility and dispersion across global fixed income and currency markets.

While the economic recovery continues, a weaker growth impulse is likely to persist. Although we are seeing signs that supply bottlenecks are abating, we expect stickier and persistently higher inflation will keep volatility elevated until official prints show stabilisation in prices. With concerns around persistent and elevated inflation setting the stage for front-loaded aggressive tightening of financial conditions, developed sovereign bond yields moved higher over the quarter, US 2yr rates ended 63bps higher at 2.95% and US 10yr rates ended 67bps higher at 3.01%. Similarly there were parallel shifts in the Australian and New Zealand yield curves where rates were ~80bps and ~64bps higher respectively with 10yr yields at 3.66% and 3.86% respectively. Around the world, investment grade corporate bond spreads priced in a higher probability of recession, with spreads on the Global Aggregate Corporate Bond Index widening 51bps to end the quarter at 175bps over sovereigns. On the currency side, the US Dollar rallied against the G10 block due to expectations for the Fed's frontloaded rate hiking cycle, the DXY Index rose 6.48% over the quarter.

Fund Commentary (source: GSAM)

Over the quarter the largest contributors to returns were allocation to government and swaps (85bps), duration strategy (15bps) and Emerging Markets debt (14bps). Our Duration strategy contributed to performance, driven by our tactical auction strategy among US rates.

The largest detractors were cross-sector allocation (-154bps), securitised (-85bps), corporate bonds (-19bps) and Country strategy (-15bps). Our Cross Sector strategy detracted from performance due to our overweight exposure to investment grade (IG) corporate credit and the balance portion of our Cross Sector strategy, whereby we balance spread sectors with interest rates. High inflation, recession fears and negative technical dynamics as a result of heightened volatility, challenged the investment grade market. The balance portion of our Cross Sector strategy underperformed amid co-ordinated increases in global sovereign bond yields. Our Country strategy also detracted from performance. This was driven by our cross-market overweight exposure to European rates within our Country systematic strategy. The European Central Bank (ECB) solidified ambitions to raise rates for the first time since 2011 in July, and also signalled that a 50bps rate rise is likely in September unless the medium-term inflation outlook improves.

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%	$432.1m	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 quarter.

Contact Us

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